S. Hrg. 100-23

# FORM W-4

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# HEARING

BEFORE THE

## SUBCOMMITTEE ON PRIVATE RETIREMENT PLANS AND OVERSIGHT OF THE INTERNAL REVENUE SERVICE

OF THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

FEBRUARY 6, 1987

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# FORM W-4

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## FRIDAY, FEBRUARY 6, 1987

U.S. SENATE, SUBCOMMITTEE ON PRIVATE RETIREMENT PLANS AND OVERSIGHT OF THE INTERNAL REVENUE SERVICE OF THE COMMITTEE ON FINANCE

*Washington, DC.*

The committee was convened, pursuant to notice, at 8:33 a.m., in Room SD-215, Dirksen Senate Office Building, Hon. David Pryor (chairman) presiding.

Present: Senators Pryor, Heinz and Durenberger.

[The press release announcing the hearing and the prepared statements of Senators Pryor, Durenberger and Symms and a report prepared by the Joint Committee on Taxation follows:]

[Press Release #H-7]

### FINANCE SUBCOMMITTEE ON OVERSIGHT OF THE INTERNAL REVENUE SERVICE TO HOLD HEARING ON FORM W-4

WASHINGTON, DC.—The Honorable David Pryor (D-Ark), Chairman of the Subcommittee on Private Retirement Plans and Oversight of the Internal Revenue Service, announced today that the Subcommittee will hold a hearing on the new Form W-4 for withholding. *The hearing will begin at 8:30 A.M. on Friday, February 6, 1987 in Room SD-215, Dirksen Senate Office Building.*

Senator Pryor said the Subcommittee will receive testimony from a number of invited witnesses, including representatives from the Internal Revenue Service and small business.

"This form has created nothing short of mass confusion," Pryor said Thursday.

"The I.R.S. has sent out videotapes trying to explain it. Federal employees are holding seminars trying to explain it. And one private tax preparing service is even spending the better part of a month providing their services for free trying to explain it."

"And despite all this, taxpayers tell me they're coming away from some of these seminars more confused than ever."

"Congress asked the I.R.S. to come up with a way to make taxes withheld from an employee's paycheck more evenly match what they actually owe at the end of the year," Pryor said. "But clearly there has to be a better way to achieve that goal."

## OPENING STATEMENT OF DAVID PRYOR
## CHAIRMAN OF THE FINANCE SUBCOMMITTEE ON PRIVATE RETIREMENT PLANS AND OVERSIGHT OF THE INTERNAL REVENUE SERVICE

February 6, 1987

I want to thank you, Commissioner Gibbs, for rearranging your schedule in order that you talk with us this morning regarding the new W-4 form. I understand you must appear shortly before the House Subcommittee chaired by Congressman Pickle, and I will do everything I can to make sure you arrive on time.

Mr. Commissioner, the new W-4 form is a disaster. It is a fiasco. Our question today is what are you going to do about it?

My suggestion is simple.

Admit: The I.R.S. laid an egg.

Admit: We can now substitute a better and more simple form that the taxpayer can comprehend.

In 1986, the American taxpayer kept hearing the following report: Fair and simplified taxation is on the way!!

In 1987, the taxpayer is now seeing their introduction to "Tax Simplification" - the W-4 form that has started a prairie fire across America that is leading to a taxpayer's revolt.

In the Tax Reform Act of 1986 Congress delegates to the I.R.S. the power to modify the withholding schedules and the W-4 form.

The purpose: to more accurately match withholding with the taxpayer's actual obligation.

The actual language of the Senate Finance Committee report stated: "Neither the Form W-4 nor the wage withholding tables is to be made more complex when they are revised in accordance with the provision of the Bill."

Mr. Commissioner, I believe that a serious breach of the Congressional mandate has occurred. The W-4 form is a prime example of "bureaucratic overreach".

The W-4 form overwhelms and intimidates the average taxpayer of America. It is filled with tax and accounting terms that mystify and frustrate the citizens of our country.

Am I alone in my assessment of the W-4 form?

Even James Baker, Secretary of the Treasury, stated it was time to relook at the W-4. The distinguished chairman of this Committee, Senator Lloyd Bentsen, recently said it was time to go back to the drawing board and create a new form.

Seminars and training sessions are being conducted across America which even add to the frustration.

And even the I.R.S., which gave birth to the W-4, has now printed up 20,000 videotapes to send across the country to explain the W-4.

The W-4's complexity has resulted in an overwhelming and massive failure, and the purpose of this hearing is to review this form itself - to look at alternatives - and to receive an update on how the I.R.S. is presently proceeding to make the form simpler and workable.

The public is in a quandry.

Do we throw the W-4 form in the wastebasket or fill it out, subjecting ourselves to severe civil and possible criminal penalties if we guess wrong?

This morning, we seek those answers.

STATEMENT OF SENATOR DAVE DURENBERGER
BEFORE THE
SENATE FINANCE COMMITTEE
SUBCOMITTEE ON OVERSIGHT OF THE IRS
FEBRUARY 6, 1987

Good Morning, Mr. Chairman. I want to commend you for holding this hearing so early in the year. I'm sure that your office has been inundated with as many letters from individuals and businesses as my office has been on the unncessary complexity of the new W-4 Form

Quite frankly, Mr. Chairman this entire situation should never have arisen. Last year, when we in this Commitee adopted the Tax Reform Bill and directed the IRS to develop a new W-4 Form, we specifically ordered the IRS not to make the Form more complex. Let me briefly quote to you from the Senate Finance Committee Report at pages 215 and 216:

> "The Committee believes that increased complexity in the current W-4 and wage withholding tables is not desirable, even if it were designed to permit withholding to approximate tax liability more closely. Consequently, neither Form W-4 nor the withholding tables is to be made more complex when they are revised in accordance with this provision of the bill."

I cannot imagine how much clearer we could have been in our direction to the Service. The IRS blatantly ignored our directive and devised a Form that is far more complex than the earlier W-4. Quite frankly, I am amazed that IRS could be so indifferent to the demands of Congress and devise such a convoluted tax form that only a tax accountant could understand.

We all know that if the tables were turned and a citizen so blatantly ignored a directive from the IRS, he would be subjected to reams of computer-generated mail which would threaten penalties, interest charges and asset seizures.

At four pages in length, it is twice as long as the Form it replaced and more complex than many actual 1040 income tax returns. In order for many taxpayers to compute their withholding allowances, they will have to do a variety of complex calculations and fill in as many as 46 separate lines of information. That's more than twice as many calculations as was required on the earlier Form!

Mr. Chairman, even IRS recognized the complexity of the Form when it released the Form. The Instructions for the Form suggest that taxpayers consult four separate IRS publications to make sure that their withholding is correct. For Example, the taxpayer may want to consult Publication 919 "Is My Withholding Correct?" Or the taxpayer may want to consult Publication 505 "Tax Withholding and Estimated Tax."

This situation is just ridulous. Part of what we in the Congress sought to achieve in tax reform was some modicum of tax simplification. By devising this ridiculously complex Form, IRS has breached the public's confidence in the promise of tax reform.

When we adopted the tax reform bill we raised the amount that taxpayers must have withheld from wages from 80 percent to 90 percent. Individuals who fail to meet the new withholding requirement are subject to an interest penalty charge under Section 6654 of the Internal Revenue Code.

I have introduced legislation (S. 350) along with Senators Danforth, Wallop, Armstrong and Roth that would waive the penalty/interest provisions of Section 6654 for those individual taxpayers whose estimated tax and withholding payments satisfy at least the 80 percent test of prior law. This waiver is temporary; it will only apply until April 15, 1988. And it only applies to individuals, not to corporations.

The failure of IRS to develop a simple and straightforward W-4 Form makes it difficult, if not impossible, for most individual taxpayers to comply with the 90 percent withholding requirement that we adopted in the Tax Reform Act. I can assure you that millions of taxpayers will make a good faith effort to fill out the W-4, only to find out that when their tax returns are due, they have not met the 90 percent test.

To subject these taxpayers to the penalty/interest charges of Section 6654 would just not be fair. That is why I have introduced S. 350 It recognizes that taxpayers will inevitably make errors in calculating their withholding only because the IRS has not provided a suitable Form for calculating withholding.

The 90 percent withholding requirement allows taxpayer- little margin for error. This legislation allows taxpayers greater leeway in 1987 to assess the appropriate amount to withhold without being subjected to statutory penalties.

Once taxpayers have had a chance to compare their 1987 withholding calculations with their final 1987 tax liability, they will be able to recompute their withholding in 1988 to meet the 90 percent test. In the meantime, IRS should make every effort to redesign the current W-4.

# STATEMENT OF SENATOR STEVE SYMMS
# TO THE
# SUBCOMMITTEE ON OVERSIGHT OF THE INTERNAL REVENUE SERVICE
# COMMITTEE ON FINANCE

February 6, 1987

The focus of these hearings is the incredibly complex W-4 form the I.R.S. has designed for every wage and salary earner, to comply with the Tax Reform Act of 1986. The new W-4 form is so complex that every member of the Senate is already receiving hate mail from angry taxpayers! One of my constituents wrote me a message on the face of the new form:

> "THIS is tax SIMPLIFICATION?!!! Thanks a lot, Senator!

Actually, I think the problem is not so much with the W-4 form itself. After all, Congress mandated the I.R.S. to develop a way to make withholding more accurate, and Congress changed the law to enforce a 90 percent level for advance paying of tax liabilities. The I.R.S. has complied with the wishes of Congress — but the wishes of Congress were poorly thought out.

Most people make adjustments to their withholding forms whenever they get married or divorced, whenever they have children, and whenever they figure out their taxes on Form 1040 and discover they are either receiving a very large refund or paying a large amount on April 15.

On April 15, 1988, millions of Americans are going to find that they have to pay something — rather than getting a refund. To be sure, the new tax law "requires" everyone to file a new W-4. That is why I say the problem is not so much with the I.R.S. and the overly complex W-4, but with the transition between the new tax rates and the old tax rates. We have to permit people more time to become familiar with the new law.

I have introduced a bill, S. 457, the "Tax Underwithholding Penalty Amnesty" bill, to solve this problem that the Congress created in the Tax Reform Act of 1986 — the problem that we have imposed a massive information burden on the average American. This is an information burden because we have demanded that every taxpayer essentially figure out his year's tax liability in advance rather than doing it between January 1 and April 15 of the next year.

For the individual who files as a single person, with no dependents and with none of the deductions we eliminated in the new tax law, the withholding tables will work very well. Even the new W-4 is not a problem for such a person because they only have to fill out the top and bottom lines. That person can skip the complex middle part of the new W-4 form.

But what about the married couple, with two working parents. They have to fill out that complex middle portion of the W-4 form -- and most horribly that table on page 4, look up the number, copy the number back on page 2 and divide by $1,900. Good Grief!

I would expect most married people to throw the W-4 form away and just let their employers enter a "2" on October 1st. But if this married couple had a few children, or some IRA deductions that have disappeared, or the tax credit for the working spouse that has been eliminated, they are going to find themselves in trouble.

Why? Because the withholding tax tables are based on a forecast of a taxpayer's average tax liability as an individual whereas the actual tax liability is computed on the marginal tax rate of the second earner. This applies equally to someone with two jobs.

Consider the following example: Assume a husband earning $25,000 and a working wife earning $20,000. The husband's withholding amount will be based on a marginal tax rate of 15 percent and an average tax rate of 10.4 percent. The wife's withholding amount will be based on a marginal tax rate of 15 percent and an average tax rate of 9.2 percent.

The wife's income tax liability, however, will be based on a marginal rate of 28 percent, because that is the marginal rate of the couple's joint income of $45,000. Their average tax rate will be 14.2 percent. But the withholding for the husband was based on a formula that computed a 10.4 percent average tax and for the wife a 9.2 percent average tax. Roughly speaking, the husband was 3.8 percent underwithheld and the wife was 5.0 percent underwithheld. Their extra tax liability on April 15, 1988, will be about $2,000. That is the reason why the very precise tax table on page 4 of the new W-4 form was included -- to give working couples (and those with two jobs) a chance to calculate their tax liabilities in advance.

Most people don't understand the difference between the average tax rate and the marginal tax rate, and nobody should be ashamed if they don't fully understand the issue because it is just one more complexity that is inherent in a progressive income tax. Even with only two brackets, which we will have in 1988, the difference between the marginal rates and the average rates will be large in the lower income ranges -- the ranges that include over 90 percent of all taxpayers.

This is the reason why I have introduced S. 457, because this is the problem with underwithholding -- a failure to file the new W-4 because it is just too complicated to figure out taxes in advance of April 15, 1988 for a majority of Americans. Let's give everyone a year of experience with the new tax law before we start imposing penalties.

In addition, my "Tax Underwithholding Penalty Amnesty" bill provides for a simple method for installment payments of the amount that has been underwithheld, provided the taxpayer certifies that a corrected W-4 form has been filed. The hypothetical working couple I discussed above may end up owing a lot more than $2,000 if they have lost IRA deductions and the working spouse tax credit. Why should we force them to borrow from a bank or a credit card to pay their taxes?

Why should we force millions of working couples to borrow, or worse (from the I.R.S.'s perspective) negotiating with the I.R.S. to make installment payments? Let's set up some clear procedures for three installment payments in the law itself, as a transition rule, for one year only. That is what S. 457 provides. It is a simple transition measure to get out of this terrible mess the Congress has created for millions of Americans, and it is the easiest way out: simply let one year pass, and every taxpayer will fill out a Form 1040, compute their taxes in the normal way after the tax year has ended and discover in many cases that they should change their withholding amounts; file a new W-4 form.

S. 457 authorizes a simple procedure for solving the current W-4 problem, literally by making it go away for one year; giving people a chance to figure out their taxes for 1987 on April 15, 1988; file the new W-4 they would probably be filling out anyway; make any deficiency payments in three easy installments (all within fiscal year 1988, at normal rates of interest, so the budget deficit will not be made larger); and start paying at the new, lower tax rates we adopted last year without a big, bad surprise at the outset to make everyone angry.

We have already had a taste of the taxpayers' anger. That is the reason these hearings are being held today. Let's solve this problem right now by enacting a one-year transition rule for the average American working family.

# NEW IRS FORM W-4
# (WITHHOLDING OF FEDERAL INCOME TAX)

Scheduled for a Hearing

Before the

Subcommittee on Private Retirement Plans
and Oversight of the Internal Revenue Service

of the

Senate Committee on Finance

on February 6, 1987

Prepared by the Staff

of the

Joint Committee on Taxation

February 5, 1987

JCX-3-87

## Introduction

The Senate Finance Subcommittee on Private Retirement Plans and Oversight of the Internal Revenue Service has scheduled a public hearing on February 6, 1987, on the new IRS Form W-4 relating to withholding of Federal income tax from employee's wages.

The first part of this document[1] discusses background and present law relating to Form W-4. The second part indicates the recent IRS action with respect to the new Form W-4. The third part summarizes Senate legislative proposals (S. 350, S. 388, and S. 457) relating to estimated tax penalties and underpayments of tax. The appendix shows the old and new versions of Form W-4 (as well as the attached instructions).

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[1] This document may be cited as follows: Joint Committee on Taxation, *New IRS Form W-4 (Withholding of Federal Income Tax)* (JCX-3-87), February 5, 1987.

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## I. Background and Present Law

### Present and Prior Law

Present law, which was not amended by the Tax Reform Act of 1986, requires the Treasury to prescribe tables and computational procedures for determining the appropriate amount of Federal income tax to be deducted and withheld by employers from wages paid to their employees (Code sec. 3402(a)). Form W-4 is the form that enables that calculation to be performed.

Form W-4 is completed by the employee, who furnishes it to the employer. The employer uses this form to determine the proper level of income tax withholding. The employer does this by using tables issued by the Treasury that specify the proper amount of income tax withholding, considering the employee's wage level and number of withholding allowances claimed.

The employee completes Form W-4 by determining the proper number of withholding allowances (or exemptions) to which he or she is entitled. Withholding allowances may be claimed for the employee and any dependents (Code sec. 3402(f)) and for itemized deductions and estimated tax credits (Code sec. 3402(m)). Other items prescribed in regulations may also be claimed. The regulations issued prior to the enactment of the Tax Reform Act of 1986 generally permitted most adjustments to income, itemized deductions, tax credits, net losses from businesses and farming, and income averaging, to be considered in computing withholding allowances (see Treas. Reg. sec. 31.3402(m)-1). Under prior law, an employee's Form W-4 generally remained in effect until the employee revoked it and filed a new one.[2]

### Tax Reform Act of 1986

#### General effect of Act on withholding

The 1986 Act affects the wage withholding system in two ways. First, the 1986 Act alters numerous provisions of the

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[2] The employer is required to furnish copies of certain Forms W-4 to the IRS, such as those that claim more than a specified number of allowances or that claim total exemption from withholding (where wages are above $200 per week) (Treas. Reg. sec. 31.3402(f)(2)-1(g)). The IRS examines these forms, and if, after contacting the employee, it determines that a claim of withholding allowances cannot be justified, it notifies the employer to change the employee's withholding.

Code relating to itemized deductions, tax credits, net losses from certain activities, and other items that were permitted to be considered in computing withholding allowances. Accordingly, Forms W-4 that claimed withholding allowances with respect to any of these altered provisions have become inaccurate. For example, a Form W-4 that claimed allowances for income averaging or the two-earner deduction (which were repealed in the 1986 Act) is now inaccurate, in that it claims excessive allowances. Also, a Form W-4 that claimed allowances for IRA contributions may now be inaccurate, depending on the extent to which the taxpayer remains entitled to deduct contributions to an IRA. Similarly, a Form W-4 that claimed allowances for itemized deductions of consumer interest is now inaccurate.

Second, the 1986 Act affects the tables issued by the Treasury that are used by employers to determine the proper amount of withholding. The 1986 Act affects these tables primarily by altering the tax rates and brackets. In addition, the 1986 Act increased the dollar amount of personal exemptions (from $1,080 in 1986 to $1,900 in 1987), which significantly affects the value of withholding allowances.

### Requirement to file new Form W-4

Congress determined that, in light of the major modifications that are made in the 1986 Act to the income tax law, the income tax withholding system needed to be modified. Congress believed that these major changes made it necessary for employees to file revised Forms W-4.

Consequently, the 1986 Act expressly requires that employees file a revised Form W-4 before October 1, 1987.[3] They must do so on a Form W-4 that has been revised by the IRS to reflect the changes in the Code may by the 1986 Act.[4] If an employee does not file a revised Form W-4 by October 1, 1987, the employer must withhold income taxes as if the employee claimed one allowance (if the employee checked the "Single" box on the most recent Form W-4 that the employee filed) or two allowances (if the employee checked the "Married" box).

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[3] Sec. 1581(c) of the Tax Reform Act of 1986 (P.L. 99-514).

[4] It is also permissible for employees to fulfill the requirements of this provision by filing on a substitute Form W-4 provided by the employer, so long as that form has been revised to parallel the official form and the substitute form complies with all IRS requirements pertaining to substitute Forms W-4.

The 1986 Act also requires that the IRS and Treasury modify the withholding schedules under section 3402 to better approximate tax liability under the changes in the tax law made by the 1986 Act.[5] Congress expected that this modification would affect at least two major items. First, Form W-4 was to be modified. Second, the withholding tables used by employers to determine the proper amount of income tax withholding were also to be modified.

With respect to modifying Form W-4, Congress expected that the IRS would make every effort to notify taxpayers that Form W-4 has been modified and that taxpayers must file the modified form with their employers before October 1, 1987. In addition, Congress expected that the IRS would issue the revised Form W-4 well before that date, to minimize the inconvenience of filing new forms for both employers and employees.

The legislative history states[6] that the modified form and tables should be designed so that withholding from taxpayer's wages approximates as closely as possible the taxpayer's ultimate tax liability. While recognizing that it is impossible to accomplish this goal with absolute precision in the case of each taxpayer, Congress believed that it is vital to the integrity of the tax system that the amount of tax withheld from wages closely match the taxpayer's ultimate tax liability. While Congress recognized that substantial involuntary overwithholding is undesirable,[7] Congress also recognized that substantial underwithholding would create significant collection and enforcement problems.

The legislative history states that, while Congress believed that the changes in the substantive tax law made by the 1986 Act will permit wage withholding to approximate tax liability more closely for many taxpayers, Congress believed that increased complexity beyond that of the previous Form W-4 and wage withholding tables is not desirable, even if it were designed to permit withholding to approximate tax liability more closely. Consequently, the legislative history states, "neither Form W-4 nor the wage withholding tables is to be made more complex when they are revised in accordance with this provision of the [Act]."[8]

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[5] Sec. 1581(a) of the Tax Reform Act of 1986 (P.L. 99-514).

[6] See S. Rep. 99-313, pp. 214-216 (Senate Finance Committee Report); H. Rep. 99-841, Vol. II (September 18, 1986), pp. 819-820 (Conference Report).

[7] A significant portion of overwithholding appears to be attributable to the preference of those individuals either to assure that they will not owe any additional taxes when they file their returns the following year or to establish a pool of savings.

## II. IRS Action

On November 18, 1986, the Internal Revenue Service released the revised Form W-4. The revised Form W-4, including attached instructions and worksheets, is four pages long. The previous Form W-4 was two pages long. (Both the previous Form W-4 and the newly revised Form W-4 are included in an appendix to this document.)

The most significant difference between the new form and the previous form is that if husband and wife both work (or if one taxpayer holds more than one job), the wages from these multiple jobs must all be aggregated in computing the withholding allowances that may be claimed. This parallels the aggregation that must be done in filing the actual tax return. Computing the number of allowances is done using a 10-step calculation and a one-page table. The new form states that performing this calculation is mandatory. The previous form did not explicitly require that all wages be aggregated (although aggregation is implied by the heading to Table 1 on the previous form). As a result, the previous form may have caused underwithholding for some married couples, thus potentially exposing them to penalties.

Another difference between the new form and the previous form are that the instructions on the new form are generally more extensive. The calculation of allowances for estimated itemized deductions and tax credits is somewhat simpler on the new form than it was on the previous form. The typeface on the new form is significantly larger than the typeface on the previous form.

## III. Legislative Proposals

### Present Law

#### Estimated tax rules

If the withholding of income taxes from wages does not cover an individual's total income tax liability, the individual, in general, is required to make quarterly estimated tax payments. An underpayment of an estimated tax installment will, unless certain exceptions are applicable, result in the imposition of an estimated tax penalty, which is equivalent to the statutory rate of interest on the amount of underpayment for the period of underpayment (Code sec. 6654). In order to avoid the penalty, prior law provided that individuals must make quarterly estimated tax payments that equal at least the lesser of 100 percent of last year's tax liability or 80 percent of the current year's tax liability. Amounts withheld from wages are considered to be estimated tax payments.

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[8] See S. Rep. 99-313, p. 216 (Senate Finance Committee Report).

The 1986 Act increased from 80 percent to 90 percent the proportion of the current year's tax liability that taxpayers must make as estimated tax payments in order to avoid the estimated tax penalty. The alternate test of 100 percent of the preceding year's liability was unchanged by the 1986 Act. This provision became effective with respect to taxable years beginning after December 31, 1986.

### Waiver of estimated tax penalties

The 1986 Act waives these estimated tax penalties for tax year 1986 by allowing individual taxpayers until April 15, 1987, to pay their full 1986 income tax liabilities without incurring any estimated tax penalties on account of underpayments of estimated tax to the extent that the underpayments were created or increased by the 1986 Act.

### Employer timetable for withholding changes

The Internal Revenue Code provides that, once an employer receives a revised Form W-4 from an employee, the employer must adjust the employee's withholding no later than a specified date.[9] That date is the first status determination date that is at least 30 days from the date on which the employee gives the revised form to the employer. The four status determination dates are January 1, May 1, July 1, and October 1 of each year. Many employers give effect to revised forms well before this statutorily mandated deadline.

### Payment of taxes

Individuals must pay their taxes in full by the due date of their returns (generally, April 15 of each year) or they are subject to a penalty.[10] The Code generally does not permit individuals to pay their taxes in installments after the due date of those taxes.

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[9] Code sec. 3402(f)(3)(B).

[10] Code sec. 6651.

### S. 350 (Senators Durenberger, Danforth, Wallop, Armstrong, and Boschwitz)

S. 350 would extend the waiver of estimated tax penalties another year. Under the bill, no estimated tax penalties would be imposed on individuals for taxable years 1986 and 1987 to the extent that the underpayment of estimated tax was created or increased by any provision of the 1986 Act. Taxpayers would still be required to pay their 1986 taxes by April 15, 1987, and to pay their 1987 taxes by April 15, 1988, or they would be subject to a penalty for failure to pay tax.[11]

### S. 388 (Senator Levin)

Section one of S. 388 would waive individual estimated tax penalties for taxable years beginning in 1987 or 1988 if the penalty is attributable to an underpayment of tax that would not have occurred if the employer had withheld taxes in accordance with a Form W-4 that was properly filed by the employee. The intent of this section is to waive penalties imposed on employees that are caused by the employer's failure to make required withholding adjustments promptly.

Section two of the bill would delay for two years (from taxable years beginning after December 31, 1986, to taxable years beginning after December 31, 1988) the provision of the 1986 Act that increased from 80 to 90 percent the portion of the current year's tax liability that may be paid as estimated tax payments (including withholding) to avoid an estimated tax penalty.

### S. 457 (Senator Symms)

Section one of S. 457 would delay for one year the provision of the 1986 Act that increased from 80 to 90 percent the portion of the current year's tax liability that must be paid by individuals as estimated tax payments to avoid an estimated tax penalty. Section one also would extend the waiver of individual estimated tax penalties another year.

Section two of the bill would provide that certain individuals may elect to pay part or all of the income taxes owed for taxable year 1987 in three equal installments. The first installment would be due April 15, 1988; the second installment would be due on June 15, 1988; and the third installment would be due on September 15, 1988. Taxpayers making this election would be required to pay interest. To be eligible to make this election, an individual must have net income from sources other than wages or salary of $1,000 or less, and must certify that a properly filed Form W-4 has been (or will be) filed with the individual's employer no later than May 1, 1988.

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[11] Code sec. 6651.

APPENDIX: FORM W-4

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Form **W-4**
(Rev. January 1985)

Department of the Treasury—Internal Revenue Service

# Employee's Withholding Allowance Certificate

OMB No. 1545-0010
Expires 11-30-87

| | |
|---|---|
| 1 Type or print your full name | 2 Your social security number |
| Home address (number and street or rural route) | 3 Marital Status: ☐ Single ☐ Married<br>☐ Married, but withhold at higher Single rate<br>**Note:** If married, but legally separated, or spouse is a nonresident alien, check the Single box. |
| City or town, State, and ZIP code | |

4 Total number of allowances you are claiming (from line F of the worksheet on page 2)

5 Additional amount, if any, you want deducted from each pay $

6 I claim exemption from withholding because (see instructions and check boxes below that apply):

a ☐ Last year I did not owe any Federal income tax and had a right to a full refund of **ALL** income tax withheld, **AND**

b ☐ This year I do not expect to owe any Federal income tax and expect to have a right to a full refund of **ALL** income tax withheld. If both a and b apply, enter the year effective and "EXEMPT" here ▶ Year

c If you entered "EXEMPT" on line 6b, are you a full-time student? ☐ Yes ☐ No

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate, or if claiming exemption from withholding, that I am entitled to claim the exempt status.

Employee's signature ▶ Date ▶ , 19

| | | |
|---|---|---|
| 7 Employer's name and address (**Employer: Complete 7, 8, and 9 only if sending to IRS**) | 8 Office code | 9 Employer identification number |

Detach along this line. Give the top part of this form to employer; keep the lower part for your records.

**Changes You Should Note.**—The value of each withholding allowance has increased to $1,040 and the income tax brackets have expanded to reflect indexing. Therefore, income tax withholding has decreased. If you claim withholding allowances for deductions and credits, you should check to be sure that enough tax is being withheld.

**Privacy Act and Paperwork Reduction Act Notice.**—If you do not give your employer a certificate, you will be treated as a single person with no withholding allowances as required by law. We ask for this information to carry out the Internal Revenue laws of the United States. We may give the information to the Dept. of Justice for civil or criminal litigation and to the States and the District of Columbia for use in administering their tax laws.

**Purpose.**—The law requires that you complete Form W-4 so that your employer can withhold Federal income tax from your pay. Your Form W-4 remains in effect until you change it or, if you entered "EXEMPT" on line 6b above, until February 15 of next year. By correctly completing this form, you can fit the amount of tax withheld from your wages to your tax liability.

If you got a large refund last year, you may be having too much tax withheld. If so, you may want to increase the number of your allowances on line 4 by claiming any other allowances you are entitled to. The kinds of allowances, and how to figure them, are explained in detail below.

If you owed a large amount of tax last year, you may not be having enough tax withheld. If so, you can claim fewer allowances on line 4, or ask that an additional amount be withheld on line 5, or both.

If the number of withholding allowances you are entitled to claim decreases to less than you are now claiming, you must file a new W-4 with your employer within 10 days.

The instructions below explain how to fill in Form W-4. **Publication 505,** Tax Withholding and Estimated Tax, contains more information on withholding. You can get it from most IRS offices.

For more information about who qualifies as your dependent, what deductions you can take, and what tax credits you qualify for, see the Form 1040 Instructions.

**You may be fined $500 if you file, with no reasonable basis, a W-4 that results in less tax being withheld than is properly allowable. In addition, criminal penalties apply for willfully supplying false or fraudulent information or failing to supply information requiring an increase in withholding.**

## Line-By-Line Instructions

Fill in the identifying information in Boxes 1 and 2. If you are married and want tax withheld at the regular rate for married persons, check "Married" in Box 3. If you are married and want tax withheld at the higher Single rate (because both you and your spouse work, for example), check "Married, but withhold at higher Single rate" in Box 3.

## Line 4 of Form W-4

**Total number of allowances.**—Use the worksheet on page 2 to figure your allowances. Add the number of allowances for each category explained below. Enter the total on line 4.

If you are single and hold more than one job, you may not claim the same allowances with more than one employer at the same time. If you are married and both you and your spouse are employed, you may not both claim the same allowances with both of your employers at the same time. To have the highest amount of tax withheld, claim "0" allowances on line 4.

**A. Personal allowances.**—You can claim the following personal allowances:

1 for yourself, 1 if you are 65 or older, and 1 if you are blind.

If you are married and your spouse either does not work or is not claiming his or her allowances on a separate W-4, you may also claim the following allowances: 1 for your spouse, 1 if your spouse is 65 or older, and 1 if your spouse is blind.

**B. Special withholding allowance.**—Claim the special withholding allowance if you are single and have one job or you are married, have one job, and your spouse does not work. You may still claim this allowance so long as the total wages earned on other jobs by you or your spouse (or both) is 10% or less of the combined total wages. Use this special withholding allowance only to figure your withholding. Do not claim it when you file your return.

**C. Allowances for dependents.**—You may claim one allowance for each dependent you will be able to claim on your Federal income tax return.

***Note:*** *If you are not claiming any deductions or credits or income averaging, skip D and E, add lines A, B, and C, enter the total on line F and carry the total over to line 4 of Form W-4.*

**Note:** *Before you claim allowances under D and E, total your non-wage taxable income (interest, dividends, self-employment income, etc.) and subtract this amount from estimated deductions you would otherwise enter in D1. If your non-wage income is greater than the amount of estimated deductions, you cannot claim any allowances under D. Moreover, you should take one-third of the excess (non-wage income over estimated deductions) and add this to the appropriate "A" value in Table 1 if determining allowances under E.*

**D. Allowances for estimated deductions.**—If you expect to itemize deductions, you may be entitled to additional withholding allowances. You may also use net losses shown on Schedules C, D, E, and F(Form 1040), the last line of Part II of Form 4797, any net operating loss carryover, charitable contributions for nonitemizers, and adjustments to income (such as IRA or Keogh contributions, employee business expenses, alimony payments, etc.). See Schedule A (Form 1040) for deductions you can itemize and see the Adjustments to Income section on page 1 of Form 1040 for a list of adjustments. Do not include reimbursed moving expenses or IRA contributions made by your employer unless income tax has been withheld on them by your employer. If no tax has been withheld on them and you claim additional allowances for them, you will be underwithheld. For details, see Publication 505.

The deduction allowed a married couple when both work is 10% of the lesser of $30,000 or the qualified earned income of the spouse with the lower income.

Once you have determined these deductions, enter the total on line D1 of the worksheet on page 2 and figure the number of withholding allowances for them.

**E. Allowances for tax credits.**—If you expect to take credits like those shown on the 1984 Form 1040 (child care, residential energy, etc.), use the table on the top of page 2 to figure the number of additional allowances you can claim. You may estimate these credits. Include the earned income credit only if you are not receiving advance payment of it. Also, if you expect to income average, include the amount of the reduction in tax because of averaging and any excess social security tax withheld when using the table.

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## Line 5 of Form W-4

**Additional amount, if any, you want deducted from each pay.**—If you are not having enough tax withheld from your pay, you may ask your employer to withhold more by filling in an additional amount on line 5. Often, married couples, both of whom are working, and persons with two or more jobs need to have additional tax withheld. You may also need to have additional tax withheld because you have income other than wages, such as interest and dividends, capital gains, rents, alimony received, taxable social security benefits, etc. Estimate the amount you will be underwithheld and divide that amount by the number of pay periods in the year. Enter the additional amount you want withheld each pay period on line 5.

## Line 6 of Form W-4

**Exemption from withholding.**—You can claim exemption from withholding only if last year you did not owe any Federal income tax and had a right to a refund of all income tax withheld, and this year you do not expect to owe any Federal income tax and expect to have a right to a refund of all income tax withheld. If you qualify, check Boxes 6a and b, write the year exempt status is effective and "EXEMPT" on line 6b, and answer Yes or No to the question on line 6c.

If you want to claim exemption from withholding next year, you must file a new W-4 with your employer on or before February 15 of next year. If you are not having Federal income tax withheld this year, but expect to have a tax liability next year, the law requires you to give your employer a new W-4 by December 1 of this year. If you are covered by social security, your employer must withhold social security tax.

Your employer must send to IRS any W-4 claiming more than 14 withholding allowances or claiming exemption from withholding if the wages are expected to usually exceed $200 a week. The employer is to complete Boxes 7, 8, and 9 only on copies of the W-4 sent to IRS.

## Table 1—For Figuring Your Withholding Allowances for Estimated Tax Credits and Income Averaging (Line E)

| Estimated Salaries and Wages from All Sources | Single Employees | | Head of Household Employees | | Married Employees (When Spouse not Employed) | | Married Employees (When Both Spouses Are Employed) | |
|---|---|---|---|---|---|---|---|---|
| | (A) | (B) | (A) | (B) | (A) | (B) | (A) | (B) |
| Under $15,000 | $ 90 | $160 | $ 0 | $160 | $ 50 | $130 | $ 0 | $130 |
| 15,000-25,000 | 120 | 260 | 0 | 260 | 60 | 180 | 310 | 180 |
| 25,001-35,000 | 160 | 320 | 0 | 320 | 150 | 240 | 770 | 230 |
| 35,001-45,000 | 240 | 390 | 0 | 390 | 200 | 300 | 1,380 | 260 |
| 45,001-55,000 | 610 | 390 | 0 | 390 | 200 | 350 | 2,100 | 320 |
| 55,001-65,000 | 1,260 | 390 | 110 | 390 | 300 | 390 | 2,890 | 350 |
| Over 65,000 | 2,250 | 390 | 730 | 390 | 570 | 390 | 3,590 | 390 |

## Worksheet to Figure Your Withholding Allowances To Be Entered on Line 4 of Form W-4

A Personal allowances . . . . . . ▶ A

B Special withholding allowance (not to exceed 1 allowance—see instructions on page 1) . . . ▶ B

C Allowances for dependents . . . . . . ▶ C

*If you are not claiming any deductions or credits or income averaging, skip lines D and E.*

D Allowances for estimated deductions:

1 Enter the total amount of your estimated itemized deductions, alimony payments, qualified retirement contributions including IRA and Keogh (H.R. 10) plans, deduction for a married couple when both work, business losses including net operating loss carryovers, moving expenses, employee business expenses, penalty on early withdrawal of savings, and charitable contributions for nonitemizers for the year . . . ▶ 1 $

2 If you do not plan to itemize deductions, enter $520 on line D2. If you plan to itemize, find your total estimated salaries and wages amount in the left column of the table below. (Include salaries and wages of both spouses.) Read across to the right and find the amount from the column that applies to you. Enter that amount on line D2. . . . ▶ 2 $

| Estimated salaries and wages from all sources | Single and Head of Household Employees (only one job) | Married Employees (one spouse working and one job only) | Employees with more than one job or Married Employees with both spouses working [1] |
|---|---|---|---|
| Under $20,000 | $2,800 | $3,900 | 35% of estimated salaries and wages |
| 20,000-45,000 | 2,800 | 3,900 | 22% of estimated salaries and wages |
| 45,001-60,000 | 8% of estimated salaries and wages | 3,900 | 19% of estimated salaries and wages |
| Over $60,000 | 10% of estimated salaries and wages | 7% of estimated salaries and wages | 18% of estimated salaries and wages |

3 Subtract line D2 from line D1 (But not less than zero) . . . ▶ 3 $

4 Divide the amount on line D3 by $1,040 (increase any fraction to the next whole number). Enter here . . . ▶ D

E Allowances for tax credits and income averaging: use Table 1 above for figuring withholding allowances

1 Enter tax credits, excess social security tax withheld, and tax reduction from income averaging $

2 Enter the column (A) amount from Table 1 for your salary range and filing status (single, etc.). However, enter 0 if you claim 1 or more allowances on line D4 . . . $

3 Subtract line 2 from line 1 (If zero or less, do not complete lines 4 and 5) . . . $

4 Find the column (B) amount from Table 1 for your salary range and filing status . . . $

5 Divide line 3 by line 4. Increase any fraction to the next whole number. This is the maximum number of withholding allowances for tax credits and income averaging. Enter here . . . ▶ E

**Example:** A taxpayer who expects to file a Federal income tax return as a single person estimates annual wages of $12,000 and tax credits of $650. The $12,000 falls in the wage bracket of under $15,000. The value in column (A) is $90. Subtracting this from the estimated credits of $650 leaves $560. The value in column (B) is $160. Dividing $560 by $160 gives 3.5. Since any fraction is increased to the next whole number, show 4 on line E.

F Total (add lines A through E). Enter total here and on line 4 of Form W-4 . . . ▶ F

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[1] If you earn 10% or less of your total wages from other jobs or one spouse earns 10% or less of the couple's combined total wages, you can use the "Single and Head of Household Employees (only one job)" or "Married Employees (one spouse working and one job only)" table, whichever is appropriate.

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# 1987

Department of the Treasury
**Internal Revenue Service**

# Instructions for Form W-4

## Employee's Withholding Allowance Certificate

### Why Must I Complete a New Form W-4?

The Tax Reform Act of 1986 made many changes to the tax law that could affect your taxes for 1987. Therefore, the amount of tax that is now withheld from your pay may no longer be correct. So that your employer will not withhold too much or too little tax from your pay, give your employer a new Form W-4.

### When Must I File the Form?

Give your employer a new Form W-4 **as soon as possible**. While the law requires you to file a new form before October 1, 1987, you are urged to file early to avoid incorrect withholding.

### What Happens If I Do Not Complete the Form?

The amount of tax withheld from your pay may not be close to the amount of tax you will owe when you file your tax return. If you do not give your employer a new Form W-4, your employer will have to ignore any previous form you have filed, and the amount withheld will probably not be correct for your tax situation.

### How Do I Complete the Form?

The following instructions tell you how to complete the Form W-4 on this page. Use the worksheet on page 3 to figure the number of withholding allowances you can claim on Form W-4.

**Please Note:** Most employees will have to complete ONLY lines A through E of the worksheet. But if you have a spouse who is also employed, or you have more than one job at the same time, or you have nonwage income, complete the rest of the worksheet. You should also complete the worksheet if you have itemized deductions, tax credits, adjustments to income, or the age or blindness deduction.

### Should I Claim the Special Withholding Allowance?

Claim this allowance if you have only one job at a time and you don't have a working spouse. Take this allowance so that you won't have too much tax withheld from your pay. See line B of the worksheet on page 3.

new form - page 1

### Step-by-Step Instructions

**Step 1—How To Complete Form W-4.**—First, fill in the information asked for on lines 1 through 3 of the form. Then, if you think you might be exempt from withholding, read the instructions for Step 2 below. Otherwise, skip to Step 3 on page 2. If you want to have more money withheld from your pay, see Step 4 on page 2.

After your new Form W-4 takes effect, you should check to see if you are having the proper amount withheld. To do this, you may want to **get Publication 919**, Is My Withholding Correct? For more details on withholding, **get Publication 505**, Tax Withholding and Estimated Tax, and **Publication 553**, Highlights of 1986 Tax Law Changes. You can get these publications by calling 1-800-424-FORM (3676).

**Note:** ***If Your Allowances Change.***—*If the number of withholding allowances you are entitled to claim decreases to fewer than the number you claim on this Form W-4, you must file a new W-4 within 10 days*

**Step 2—Are You Exempt From Withholding?**—You are exempt from withholding ONLY if:

1. Last year you did not have any Federal income tax liability; AND
2. This year you expect to have no Federal income tax liability.

***Important Change in the Law.***—If you can be claimed as a dependent on another person's tax return (for example, on your parent's return), you may not be exempt. You **cannot** claim exempt status if you have any nonwage income, such as interest on savings, and expect your wages plus this nonwage income to add up to more than $500.

If you are exempt, go to line 6 of Form W-4 and complete the appropriate boxes. Your exempt status will remain in effect until February 15 of the next year. If you still qualify for exempt status next year, complete and file a new form by that date.

*(Continued on page 2)*

Cut along this line and give this form to your employer. Keep the rest for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

**Employee's Withholding Allowance Certificate**

▶ **For Privacy Act and Paperwork Reduction Act Notice, see instructions.**

OMB No. 1545-0010
**1987**

1 Type or print your full name

2 Your social security number

Home address (number and street or rural route)

City or town, state, and ZIP code

3 Marital Status: ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate

**Note:** *If married, but legally separated, or spouse is a nonresident alien, check the Single box*

4 Total number of allowances you are claiming (from the Worksheet on page 3)

5 Additional amount, if any, you want deducted from each pay (see Step 4 on page 2) $

6 I claim exemption from withholding because (see Step 2 above and check boxes below that apply):

- a ☐ Last year I did not owe any Federal income tax and had a right to a full refund of **ALL** income tax withheld, **AND**
- b ☐ This year I do not expect to owe any Federal income tax and expect to have a right to a full refund of **ALL** income tax withheld. If both a and b apply, enter the year effective and "EXEMPT" here ▶ Year 19
- c If you entered "EXEMPT" on line 6b, are you a full-time student? ☐ Yes ☐ No

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or, if claiming exemption from withholding, that I am entitled to claim the exempt status.

**Employee's signature ▶** **Date ▶** 19

7 Employer's name and address (**Employer: Complete 7, 8, and 9 only if sending to IRS**)

8 Office code

9 Employer identification number

new form-page 2

**Step 3—Complete the Worksheet on Page 3.**— By using this worksheet, the amount of tax withheld from your pay should closely match your tax liability for the year.

Please claim all the withholding allowances to which you are entitled. In certain cases, your employer must send copies of the Form W-4 to IRS. You may then be asked to verify your allowances. This applies if you claim more than 10 withholding allowances, or you claim exemption from withholding under Step 2 and your wages are expected to usually exceed $200 a week.

*Penalty.*—You may be fined $500 if, with no reasonable basis, you file a Form W-4 that results in less tax being withheld than is properly allowable. In addition, criminal penalties apply for willfully supplying false or fraudulent information or failing to supply information requiring an increase in withholding.

**Line B—Special Withholding Allowance.**— The Special Withholding Allowance is very important. Claim it if you qualify for it, because if you **do not**, too much tax may be withheld from your pay.

Claim this allowance if:

- You are single and have only one job at a time; OR
- You are married, have only one job at a time, and your spouse does not work; OR
- You have two jobs at a time and only one job paid more than $2,500; OR
- You are married, both you and your spouse work, and only one job paid more than $2,500.

**Line E—Should I Stop Here?**—You may stop here and enter the total from line E on Form W-4, line 4, **only** if you do not need to increase or decrease your allowances as explained between lines E and F of the worksheet.

**Line F—Adjustments to Income.**—Enter the total of the following:

- Qualified reimbursed employee business expenses (unreimbursed expenses are allowed only as an itemized deduction)
- Qualified alimony payments made
- Deductible business and investment losses
- Penalty on early withdrawal of savings
- Qualified contributions to an IRA account or Keogh plan. If either you or your spouse, if applicable, have an IRA and are covered by an employer's pension plan, your 1987 IRA deduction may be reduced or eliminated if your adjusted gross income is at least $40,000 ($25,000 if single, or $0 if married filing separately). Get **Publication 590**, Individual Retirement Arrangements (IRAs), for details.

**Line G—Itemized Deductions.**—Enter the total of the following:

- Medical expenses in excess of 7.5% of your AGI*
- State and local taxes (exclude **sales** taxes)
- Home mortgage interest and 65% of personal interest
- Qualified investment interest
- Charitable contributions
- Certain casualty and theft losses in excess of 10% of AGI*
- Moving expenses (if reimbursed, include only if your employer withheld tax on them)
- Miscellaneous deductions (most of these are now deductible only in excess of 2% of AGI*; see Publication 553)

* In general, your AGI (adjusted gross income) is your income less any adjustments to income included on line F of the worksheet.

**Line J—Additional Standard Deduction for Age or Blindness.**—If you do **not** expect to itemize deductions on your 1987 tax return **and** either you or your spouse is age 65 or over or blind, use the following table.

| | If 65 or over or blind, enter on line J: | If 65 or over and blind, enter on line J: |
|---|---|---|
| Single | $1,210 | $1,960 |
| Head of Household | $2,610 | $3,360 |
| Married-Joint | $1,840 ** | $2,440 ** |
| Married-Separate | $1,220 | $1,820 |
| Qualifying Widow(er) | $1,840 | $2,440 |

**If your spouse is 65 or over or blind, add $600 to this amount. Add $1,200 if spouse is both 65 or over and blind.

**Line K—Tax Credits.**— Enter the amount of any tax credits you expect to claim, such as the credit for child and dependent care expenses, the earned income credit (EIC), and other credits shown on the 1986 Form 1040. The amount of the EIC has increased for 1987. Get Publication 553 for details. Do not include the EIC if you are receiving advance payment of it.

**Line O.**— Round the result to the nearest whole number. Drop amounts under .50. Increase amounts from .50 to .99 to the next whole number. For example, 3.25 becomes 3, and 4.61 becomes 5.

**Lines Q through T—Working Spouse? More Than One Job? Nonwage Income?**— So that you will have enough tax withheld, you MUST complete any lines that apply to you.

**Line U—Total Withholding Allowances.**— If the number on line T is larger than the number on line P, you will probably owe more tax when you file your return and may have to pay a penalty unless you take further steps to have more tax withheld from your pay. You may use the instructions for Step 4 to estimate how much additional tax you should request your employer to withhold each pay period. As an alternative, you may use the 1987 **Form 1040-ES**, Estimated Tax for Individuals, to make this computation.

**Step 4—Additional Amount You Want Deducted From Each Pay.**—In some instances, you will be underwithheld, even if you do not claim any withholding allowances on Form W-4. This could occur if you have a working spouse, more than one job at a time, or nonwage income, AND the number on line T of the worksheet is larger than the number on line P.

To correct this problem, you may have more tax withheld by filling in a dollar amount on line 5 of Form W-4. A method of figuring this amount follows:

1. Enter the number from line T of the worksheet . . . . ________
2. Enter the number from line P of the worksheet . . . . ________
3. Subtract line 2 from line 1 . ________
4. Enter the amount from the table below that applies to you . . . . . . . . $________
5. Multiply line 3 by line 4 . . $________
6. Divide line 5 by the number of pay periods each year. Enter the result here and on Form W-4, line 5 . . . . . $________

| Married Workers' Combined Annual Income | Line 4 Amount |
|---|---|
| Under $4,860 | $209 |
| $4,860 - $29,860 | $285 |
| $29,861 - $46,860 | $532 |
| $46,861 - $91,860 | $665 |
| $91,861 and over | $732 |

| Unmarried Worker's Annual Income | Line 4 Amount |
|---|---|
| Under $2,440 | $209 |
| $2,440 - $17,440 | $285 |
| $17,441 - $27,640 | $532 |
| $27,641 - $54,640 | $665 |
| $54,641 and over | $732 |

**Privacy Act and Paperwork Reduction Act Notice.**—We ask for this information to carry out the Internal Revenue laws of the United States. We may give the information to the Department of Justice for civil or criminal litigation and to cities, states, and the District of Columbia for use in administering their tax laws. You are required to give this information to your employer.

new form- page 3

## Worksheet To Figure Your Withholding Allowances

**Note:** *If you have a working spouse or more than one job at a time, use only one worksheet to figure your total allowances, combining all income, deductions, and credits on the one worksheet.*

**A** Enter "1" **for yourself** unless you can be claimed as a dependent on another person's tax return . . . . . . . A ________

**B** **Special Allowance.**—Enter "1" if:
- you are single and you have only one job; or
- you are married, you have only one job, and your spouse does not work; or
- wages earned by you on a second job or earned by your spouse (or both) are $2,500 or less. . . B ________

**C** Enter "1" **for your spouse** unless your spouse can be claimed as a dependent on another person's tax return . . . . C ________

**D** Enter number of **dependents** other than your spouse that you expect to claim on your tax return . . . . . . . . D ________

**E** Add lines A through D and enter the total*—Read the following instructions to see if you should stop here . ▶ E

You **MUST** complete lines Q through T if you have total income of $950 or more from the following sources:
- A Working Spouse
- More Than One Job
- Nonwage Income

You **SHOULD** complete lines F through P if you expect to have:
- Itemized Deductions
- Tax Credits
- Adjustments to Income
- Age or Blindness Deduction

Otherwise, **STOP** here and enter the number from line E on Form W-4, line 4.

**F** Enter your estimated **adjustments to income** . . . . . . . . . . . . . . . F $________

**G** Enter your estimated **itemized deductions** . . . . . . . G $________

**H** Enter: $3,760 if married filing jointly or qualifying widow(er); $2,540 if single or head of household; $1,880 if married filing separately . . . H $________

**I** Subtract the amount on line H from line G. Enter the result, but not less than zero . . . . . I $________

**J** **Age 65 or Over? Blind?** If you do not plan to itemize deductions, enter your additional standard deduction from instructions for line J on page 2 . . . . . . . . . . . . J $________

**K** Enter your estimated **tax credits**, such as child and dependent care credit or earned income credit . . . . . . . . . . . K $________

**L** If line K is zero, skip to line N. Otherwise, enter the number from the table below . . . . . . . . . . . . . . . L ________

| **Married Filing Jointly or Qualifying Widow(er)** | | | **Single or Married Filing Separately** | | | **Head of Household** | | |
|---|---|---|---|---|---|---|---|---|
| If your combined estimated wages are— | | Enter on line L | If your estimated wages are— | | Enter on line L | If your estimated wages are— | | Enter on line L |
| At least | But less than | | At least | But less than | | At least | But less than | |
| $0 | $12,500 | 9 | $0 | $6,200 | 9 | $0 | $8,800 | 9 |
| $12,500 | $37,500 | 6.5 | $6,200 | $21,000 | 6.5 | $8,800 | $29,000 | 7 |
| $37,500 | $55,000 | 3.5 | $21,000 | $31,500 | 3.5 | $29,000 | $44,000 | 4 |
| $55,000 | $110,000 | 3 | $31,500 | $70,000 | 3 | $44,000 | $100,000 | 3 |
| $110,000 or over | | 2.5 | $70,000 or over | | 2.5 | $100,000 or over | | 2.5 |

**M** Multiply the amount on line K by the number on line L and enter the total amount here . . M $________

**N** Add lines F, I, J, and M. Enter the total amount here . . . . . . . . . . . . . . N $________

**O** Divide the amount on line N by $1,900. Round to the nearest whole number (see instructions on page 2) . . . . ▶ O ________

**P** Add lines E and O and enter the total number here . . . . . . . . . . . . . . . . . . . ▶ P ________

**Q** **Nonwage Income?**—Enter the estimated amount, if any, of all your nonwage income . . Q $________

**R** **Working Spouse? More Than One Job?**—Too little tax may be withheld if either of these situations applies. See **page 4** for line R instructions and tables to figure the amount to enter on this line . . . . . . . . . . . . . . . . . . . . . . . . R $________

**S** Add amounts on lines Q and R and enter the total amount here . . . . . . . . . . S $________

**T** Divide the amount on line S by $1,900. Round to the nearest whole number (see instructions for line O) . . . . . ▶ T ________

**U** **Total Withholding Allowances.**—Subtract the number on line T from the number on line P. Enter the result here and on Form W-4, line 4.* If the result is zero or less, enter zero and see instructions for line U on page 2 . . . . ▶ U

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* *If you have more than one job or if your spouse works, you may claim all of your allowances on one job or you may claim some on each job, but you may* ***NOT*** *claim the same allowances more than once. Your withholding will usually be more accurate if you claim all allowances on the Form W-4 for the job with the largest wages and claim zero on all other Forms W-4.*

## Instructions and Tables for Line R of the Worksheet

1. Enter wages from the HIGHEST paying job (of either spouse, if married) $ ________
2. $1,900
3. Enter the number from line P of Worksheet on page 3 x ____
4. Multiply line 2 by line 3 Enter the result here $ ________
5. Subtract line 4 from line 1 If zero or less, enter zero $ ________
6. Enter wages from the NEXT HIGHEST paying job $ ________
7. If married filing jointly, use Table A Otherwise, use Table B
8. Read ACROSS the table and find the column for the line 5 amount
9. Read DOWN the left column and find the row for the line 6 amount
10. Enter on line R of the Worksheet the amount in the table where the column and row meet

### Table A—For Married Couples Filing Joint Returns

| Amount From Line 6 Above | | Amount From Line 5 Above | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At Least- | But Less Than- | Under $4,000 | $4,000 And Under $18,000 | $18,000 And Under $20,000 | $20,000 And Under $22,000 | $22,000 And Under $24,000 | $24,000 And Under $26,000 | $26,000 And Under $28,000 | $28,000 And Under $30,000 | $30,000 And Under $32,000 | $32,000 And Under $34,000 | $34,000 And Under $36,000 | $36,000 And Under $38,000 | $38,000 And Under $40,000 | $40,000 And Under $42,000 | $42,000 And Under $44,000 | $44,000 And Under $46,000 | $46,000 And Under $48,000 | $48,000 And Under $50,000 | $50,000 And Under $55,000 | $55,000 And Under $60,000 | $60,000 And Under $70,000 | $70,000 Or Over |
| $0 | $2,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $2,000 | $4,000 | 0 | 300 | 300 | 300 | 300 | 300 | 300 | 500 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 |
| $4,000 | $6,000 | 0 | 800 | 800 | 800 | 800 | 800 | 1,000 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 |
| $6,000 | $8,000 | 0 | 800 | 800 | 800 | 800 | 1,000 | 2,700 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 3,100 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 |
| $8,000 | $10,000 | 0 | 800 | 800 | 800 | 1,000 | 2,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 4,000 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 |
| $10,000 | $12,000 | 0 | 800 | 800 | 1,000 | 2,700 | 4,400 | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 4,900 | 5,400 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 |
| $12,000 | $14,000 | 0 | 800 | 1,000 | 2,700 | 4,400 | 5,600 | 5,600 | 5,600 | 5,600 | 5,600 | 5,600 | 5,900 | 6,400 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 |
| $14,000 | $16,000 | 0 | 800 | 2,700 | 4,400 | 6,200 | 6,500 | 6,500 | 6,500 | 6,500 | 6,500 | 6,800 | 7,300 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,900 |
| $16,000 | $18,000 | 0 | 800 | 4,400 | 6,200 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,700 | 8,200 | 8,700 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,300 |
| $18,000 | $20,000 | 0 | 800 | 6,200 | 7,900 | 8,300 | 8,300 | 8,300 | 8,300 | 8,700 | 9,200 | 9,700 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,600 |
| $20,000 | $22,000 | 0 | 1,000 | 7,900 | 9,300 | 9,300 | 9,300 | 9,300 | 9,600 | 10,100 | 10,600 | 11,100 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 12,000 |
| $22,000 | $24,000 | 0 | 2,700 | 9,600 | 10,200 | 10,200 | 10,200 | 10,500 | 11,000 | 11,500 | 12,000 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 13,200 |
| $24,000 | $26,000 | 0 | 4,400 | 11,100 | 11,100 | 11,100 | 11,400 | 11,900 | 12,400 | 12,900 | 13,400 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 14,400 |
| $26,000 | $28,000 | 0 | 6,200 | 12,100 | 12,100 | 12,400 | 12,900 | 13,400 | 13,900 | 14,400 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 15,600 |
| $28,000 | $30,000 | 0 | 7,900 | 13,000 | 13,300 | 13,800 | 14,300 | 14,800 | 15,300 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 16,800 |
| $30,000 | $32,000 | 0 | 8,600 | 13,700 | 14,200 | 14,700 | 15,200 | 15,700 | 16,200 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,800 | 17,700 |
| $32,000 | $34,000 | 0 | 8,600 | 14,200 | 14,700 | 15,200 | 15,700 | 16,200 | 16,700 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 17,400 | 18,200 |
| $34,000 | $36,000 | 0 | 8,600 | 14,700 | 15,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 18,000 | 18,800 |
| $36,000 | $38,000 | 0 | 8,600 | 15,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,800 | 18,600 | 19,300 |
| $38,000 | $40,000 | 0 | 9,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,700 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,400 | 19,200 | 19,900 |
| $40,000 | $42,000 | 0 | 10,200 | 16,200 | 16,700 | 17,200 | 17,700 | 18,200 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 19,000 | 19,800 | 20,400 |
| $42,000 | $44,000 | 0 | 11,100 | 16,700 | 17,200 | 17,700 | 18,200 | 18,700 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 19,100 | 19,600 | 20,400 | 20,900 |
| $44,000 | $46,000 | 0 | 12,000 | 17,200 | 17,700 | 18,200 | 18,700 | 19,200 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,400 | 19,700 | 20,200 | 21,000 | 21,500 |
| $46,000 | $48,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,300 | 20,300 | 21,500 | 22,000 |
| $48,000 | $50,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,100 | 20,500 | 21,000 | 21,700 | 22,200 |
| $50,000 | $55,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,100 | 20,300 | 20,500 | 20,800 | 21,300 | 22,100 | 22,500 |
| $55,000 | $60,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,800 | 20,000 | 20,200 | 20,400 | 20,600 | 20,800 | 21,000 | 21,300 | 21,800 | 22,600 | 23,000 |
| $60,000 | $70,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,900 | 20,100 | 20,300 | 20,500 | 20,700 | 20,900 | 21,100 | 21,300 | 21,500 | 21,700 | 22,100 | 22,600 | 23,300 | 23,600 |
| $70,000 | | 0 | 12,900 | 18,300 | 19,100 | 19,800 | 20,600 | 21,000 | 21,200 | 21,400 | 21,600 | 21,800 | 22,000 | 22,200 | 22,400 | 22,600 | 22,800 | 23,000 | 23,200 | 23,600 | 24,100 | 24,800 | 25,000 |

### Table B—For All Others

| Amount From Line 6 Above | | Amount From Line 5 Above | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At Least- | But Less Than- | Under $10,000 | $10,000 And Under $12,000 | $12,000 And Under $14,000 | $14,000 And Under $16,000 | $16,000 And Under $18,000 | $18,000 And Under $20,000 | $20,000 And Under $22,000 | $22,000 And Under $24,000 | $24,000 And Under $30,000 | $30,000 And Under $40,000 | $40,000 And Under $50,000 | $50,000 Or Over |
| $0 | $4,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $4,000 | $6,000 | 0 | 0 | 0 | 0 | 1,000 | 1,000 | 1,000 | 1,000 | 1,400 | 1,400 | 1,400 | 1,600 |
| $6,000 | $8,000 | 0 | 0 | 0 | 1,500 | 1,900 | 1,900 | 1,900 | 2,100 | 2,600 | 2,600 | 2,600 | 2,800 |
| $8,000 | $10,000 | 0 | 0 | 1,500 | 2,900 | 2,900 | 2,900 | 3,000 | 3,500 | 3,700 | 3,700 | 3,700 | 4,000 |
| $10,000 | $12,000 | 0 | 1,500 | 3,300 | 3,800 | 3,800 | 3,900 | 4,400 | 4,900 | 4,900 | 4,900 | 4,900 | 5,300 |
| $12,000 | $14,000 | 0 | 3,300 | 4,700 | 4,700 | 4,900 | 5,400 | 5,900 | 6,000 | 6,000 | 6,000 | 6,200 | 6,500 |
| $14,000 | $16,000 | 0 | 5,000 | 5,700 | 5,800 | 6,300 | 6,800 | 7,200 | 7,200 | 7,200 | 7,200 | 7,500 | 7,700 |
| $16,000 | $18,000 | 1,500 | 6,600 | 6,700 | 7,200 | 7,700 | 8,200 | 8,300 | 8,300 | 8,300 | 8,300 | 8,800 | 8,900 |
| $18,000 | $20,000 | 1,900 | 6,900 | 7,400 | 7,900 | 8,400 | 8,900 | 8,900 | 8,900 | 8,900 | 8,900 | 9,600 | 9,600 |
| $20,000 | | 2,100 | 8,400 | 8,900 | 9,400 | 9,900 | 10,100 | 10,100 | 10,100 | 10,100 | 10,400 | 11,200 | 11,200 |

new form-page 4

Senator PRYOR. Mr. Commissioner, I want to thank you for rearranging your schedule in order that you could talk with us this morning in the Finance Committee regarding the new W-4 Form.

I understand that you must appear very shortly before the subcommittee chaired by Congressman Pickle in the House, and I want you to know that Senator Heinz and I will do everything that we can to make certain that you arrive on time.

Mr. Commissioner, the new W-4 Form is a disaster. It is an absolute fiasco. Our question today is: What are you and your agency going to do about it? My suggestion is very simple: first, to admit that the Internal Revenue Service has laid an egg; second, to admit that we together can now substitute a better and more simple form that the taxpayer can comprehend.

In 1986, the American taxpayer kept hearing the following report: Fair and simplified taxation is on the way. One year later in 1987, the taxpayer is now seeing their first introduction to so-called "tax simplification." The W-4 Form has started a prairie fire of discontent across America that is leading to a taxpayer's revolt.

In the Tax Reform Act of 1986, Congress delegated to the Internal Revenue Service the power to modify the withholding schedules and the W-4 Form. The purpose was very simple: to more accurately match withholding with the taxpayer's actual tax obligation. The actual language of the Senate Finance Committee report stated, and I quote from the committee report: "Neither the Form W-4 nor the wage withholding tables is to be made more complex when they are revised in accordance with the provisions of this bill."

That was our mandate. Mr. Commissioner, I believe that a serious breach of the Congressional mandate has occurred.

The W-4 Form is a prime example, I believe, of bureaucratic overreach. The W-4 Form overwhelms and intimidates the average taxpayer of America. It is filled with accounting and tax terms that mystify and frustrate the citizens of our country. Now, am I alone in my assessment of the W-4 Form?

Even James Baker, the Secretary of the Treasury, stated just recently that it was time to relook at the W-4 Form. The distinguished chairman of the Senate Finance Committee, Senator Lloyd Bentsen, has recently stated that it was time to go back to the drawing board and create a new form.

Seminars and training sessions are being conducted across America which even add to the frustration of our taxpayers; and even the Internal Revenue Service, which gave birth to the W-4 Form, has now printed up to 20,000 video tapes to send across our country to explain the W-4 Form.

By the way, in the State of Arkansas, as recently as yesterday, we attempted to acquire one of the video tapes. We found one tape; the problem is that there is a two-week waiting list for that tape. The W-4 Form's complexity has resulted in an overwhelming and massive failure.

The purpose of this hearing today is to review this form itself, to look at alternatives, and to receive an update on how the Internal Revenue Service is presently proceeding to make the form simpler and more workable.

The public today is in a quandary; do we throw the W-4 in the wastebasket, or do we fill it out, subjecting ourselves to severe civil and even criminal penalties if we guess wrong?

This morning, Mr. Commissioner, we desperately seek those answers.

And for my constituents, from a small company in my State, I find the general manager writing to me saying that this form is absolutely incomprehensible. He concludes his letter by saying: "I am very, very angry." There is a lady in our State who is a small business person, and she says: "If I am thrown in the slammer, I request it to be in the Federal penitentiary in Texarkana where they have recreation facilities, air conditioning, color TV, and all the good things of life that our Government requires the taxpayers to furnish people who break the law. Today, I filled out my W-4 Form, and I am sick."

Another letter from Stuttgart, Arkansas—and Mr. Commissioner, these are just a smattering of the many that we have; and I know my friend and colleague, Senator Heinz, has similar—"When I saw the instructions in the worksheet for the W-4 Form, I could not believe it. I have never seen such an unclear set of instructions in my life. People who designed them seem to have assumed that salaried persons and wage earners from the president of a huge corporation to a janitor was a Certified Public Accountant. Please see that something is done about this."

A letter from another Arkansas company, based in Little Rock: "We would like to be counted in the taxpayers' revolt regarding the W-4 Form. It is ludicrous." And then, another small company in our State: "What happened to the Paperwork Reduction Act?" In a time when the President and you and the Senators and Congressmen are working to reduce the mammoth cost of Government, the Internal Revenue Service has now managed to multiply the cost of what was once a simple slip of paper into a four-page brochure.

Mr. Commissioner, those are merely samples.

Let me, in my closing, Mr. Commissioner, state if I might a little story from the Book of Luke, Chapter 19. This was when Jesus was coming into Jerricho. There was a huge throng of people, and there was a man short of stature who was the most unpopular and unsavory character in that particular community of Jerricho. As Jesus walked into the throngs of people, he looked into a tall sycamore tree and he saw Zachias, the local tax collector, the most unpopular person in those parts.

Jesus looked up in the tree and said, "Zachias, come down out of that tree because tonight I am going to have dinner with you." The people became angry and restive. They said why would Jesus go to this sinner's home for dinner, and Jesus answered simply by saying, Mr. Commissioner: "I am going to give him a chance to repent and to seek salvation." [Laughter.]

Mr. Commissioner, today we want you to repent, and we want to offer you the opportunity of salvation. [Laughter.]

And now, my colleague and friend, Senator Heinz.

Senator HEINZ. Mr. Chairman, it is pretty hard to know how to follow Luke 19. [Laughter.]

I would suggest perhaps Moses to lead the Internal Revenue Service out of the wilderness, or perhaps to part the Red Sea of Government ink before it closes in on many confused taxpayers, but I will have to defer to Senator Pryor for the actual references, as to where those are in the Old Testament.

Mr. Commissioner, you have been Internal Revenue Commissioner for less than a year. You cannot claim to have been the architect of tax reform and tax simplification. Are you lucky. But I do recall about two years ago having had your predecessor before a Congressional committee, Roscoe Eggar, and asking him whether, if Congress did not act on tax reform until the middle of 1986, there was any possibility at all that the rush to create regulations, to create forms could in any way create confusion either for the IRS or the taxpayer. Mr. Eggar stood four-square. He said, "Senator, we will do our job." I forgot to ask him what kind of a job he was going to do on people because this particular set of forms, the W-4, really does a job on the American taxpayer.

Instead of the old two-page form, it is a four-page form. Instead of the worksheet having steps numbered (a) through (f), it has steps on the new worksheet that go (a) through (u), and one wonders what new alphabet we would have had to invent, had it gone just a few steps farther.

On the old worksheet, the second marked paragraph was entitled "Privacy," and eventually the taxpayer was warned about a penalty in case they could not substantiate what they did or a worse penalty, or criminal penalty, if they did something willfully. On the new form, which instructions begin on page 2, privacy has been relegated to the very bottom of the last column on the page, and penalty emphasizing that you can be fined and if you are criminally liable put in jail and fined even more, is put up near the top.

I would describe what has been created as a Frankenstein monster. What is a monster? A monster is usually something that is alien, that we are totally unfamiliar with. It is usually monstrously huge and, finally, it is extremely frightening. The new form is all of those.

It is unexpectedly strange and alien. It is monstrously large—twice as big as ever before. And it is making people afraid. And we have to do something about it, and we need your help to do something about it.

My last comment is that when the American people were told that we were enacting a tax reform bill stressing fairness and simplicity, I don't think they had any idea that they were going to be made both fearful and confronted with greater complexity. It would literally be easier for someone to fill out their tax return than to fill out these W-4 Forms.

I can think of a number of problems that you need to direct yourself to, but the immediate issue—and there is very little time—is how to correct the problem and to do so before one of two things happens: first, before people become confused to the point where they are frightened of being penalized because they have made a mistake in their W-4 Forms, or they become so frustrated that they are going to start calling every available Government phone number to complain.

As Senator Pryor's reading of his mail has suggested, they are getting pretty close to the latter right now. Mr. Commissioner, I know that tax reform didn't start on your watch, but it has ended up on your doorstep; and the IRS has precious little time to get its house in order.

Thank you, Mr. Chairman.

Senator **Pryor**. Thank you, Senator Heinz. Mr. Commissioner, I want to add one more constituent comment if I might. On page 3, line (j), the question is: "Are you 65 or over? Are you blind?" One of my constituents sent us a copy of his W-4 Form and on this line it said, "I was neither until I started trying to fill out this form, and now I am both." [Laughter.]

Now, Mr. Commissioner, we have had a little bit of fun today. We want to introduce some seriousness into this hearing because it is a very serious juncture where we are. There is a great quandary out there, and we hope that you will help us this morning in getting some constructive solutions to the dilemma and the quandary we find ourselves in. We look forward to hearing your statement.

## STATEMENT OF THE HONORABLE LAWRENCE GIBBS, COMMISSIONER OF THE INTERNAL REVENUE SERVICE

Commissioner **Gibbs**. Thank you, Mr. Chairman. Mr. Chairman, Senator Heinz, I am here today at your request to discuss the IRS Form W-4, the Employee's Withholding Allowance Certificate.

In my testimony and in answers to your questions, I will attempt to cover the major issues that are involved in constructing the new W-4 and in the related information on that form. I would also like to bring you up to date with respect to the possibility of a simplified form and instructions.

As you are aware, Mr. Chairman, I have—as you mentioned—another appearance scheduled on Capitol Hill this morning, so I will not be able to stay for the entire hearing; but I want you to know that if there are further questions or concerns after the hearing, I will be pleased to work with you on them.

The Tax Reform Act of 1986, which was enacted in October of last year, made several changes to the withholding system. First, it required every employee to file a new Form W-4 by October 1, 1987; second, it directed the Internal Revenue Service to make the withholding form itself more accurate; and third, it required that this new W-4 Form be developed and distributed by IRS accordingly.

As you know, in our tax system there is a constant tension between fairness and simplicity. In the world of withholding, this translates into tension between accuracy and simplicity.

In developing the tax reform legislation, Congress and the Internal Revenue Service realized that tax reform presented a unique opportunity to introduce more accuracy into our withholding system. While not perfect in each and every case, our new Form W-4 was redesigned to obtain the most accurate answer for the largest possible number of taxpayers among the over 100 million individual taxpayers. At the same time, it allowed most taxpayers to complete only a small part of the form, lines (a) through (e), as most of them had in the past.

It is now clear that in our efforts towards accuracy, we have produced a form which has caused concern on the part of a significant number of individuals. Very simply, the length of the form, its language, and the number of computations have worked against our efforts to assist taxpayers in an early adjustment of their withholding for the effects of the new Tax Reform Law. If this is the result, then our efforts towards accuracy are less productive; and in the larger picture, we risk having the public's perception of tax reform negatively affected.

Where do we go from here? Mr. Chairman, we have heard your concerns, as well as those of others in Congress on this issue. We have also heard Secretary Baker's concerns, as well as those of taxpayers themselves, many of whom have written or spoken personally to me. As you and I have discussed, Mr. Chairman, we both share the belief that if the current W-4 Form is not working as intended for many American taxpayers, then the Service should respond in some fashion with a simplified form.

For that reason, I have sent our technicians back to the drawing board on the instructions and related materials that accompany the Form W-4. We do not expect to change the form itself, that is, the small, one-third sized sheet that is given to employers by employees. We don't expect to change that; but we are working on ways to simplify the instructions and the worksheet information while maintaining sufficient levels of accuracy regarding tax liability.

Now, as we know from last year's tax reform effort, additional simplicity in this case may necessarily involve a trade-off with accuracy. A simplified form will require a broad range of assumptions and will consequently lead to a less precise calculation. Currently, we are reviewing the alternatives in this area to try to determine how much simplicity can be achieved with adequate levels of accuracy.

While I am not in a position to make any announcements or promises at this time, we are committed to completing a review of the various alternatives just as soon as we possibly can. In this effort, I again pledge that every effort will be made to include you and your subcommittee in that process.

I will be glad to respond to any questions that you may have, and I thank you.

Senator PRYOR. Now, you have told us that you are back working trying to come up with a new form—are you looking at a new form?

Commissioner GIBBS. We are looking at alternative ways that we can address the problems that the form that is out there is creating; and one of those is to take a look at whether we could come up with a form that would be simpler, in terms of its length, in terms of its language, and in terms of its computations that are required.

Senator PRYOR. Now, Mr. Commissioner, time is of the essence. How long will this process take the Internal Revenue Service?

Commissioner GIBBS. What we are finding, Mr. Chairman, is this. We are finding that, as we attempt to construct a simple form, we have a form that is somewhat less accurate in terms of the amount of tax to be withheld. Certainly, one of the things that we do not wish to do is to compound the problems that we presently face with a new form that, although simpler, results in under- or over-withholding. That is simply unacceptable because, as you mentioned in connection with the Senate Finance Committee report, in addition to requesting the Internal Revenue Service to simplify the form, we were also requested to attempt to make the form more accurate in terms of tax liability and not to have over- or under-withholding. What we are finding, as we try to simplify the form, is that we begin to run into problems with respect to over- and under-withholding.

And what we are doing at the present time is to attempt to determine if we can come up with a form—a simplified form that will have an acceptable level of under- or over-withholding, and preferably over-withholding and not under-withholding. That is what we are dealing with, and that is what makes it difficult to give you a time frame.

I am hopeful that within the next several weeks, we will be able to come out with something; but I am not in a position this morning to be able to promise it. I can tell you this: We have been working night and day and weekends on this matter and will continue to do so until we have a solution to the problems that confront us.

Senator **Pryor**. Mr. Commissioner, how do Senator Heinz and Senator Pryor advise our constituents when they ask us this question: What are we supposed to do now, especially in view of the Secretary of the Treasury's own admonition to go back to the drawing board? How do we tell our constituents what to do during the meantime while you and your people are relooking at the W–4 situation?

Commissioner **Gibbs**. I have an interim suggestion, and that is this. It is not perfect, but I would like to offer it—one alternative obviously is to send them back to the long form.

Senator **Pryor**. Send them back to the long form?

Commissioner **Gibbs**. Yes, but let me stop right here and say——

Senator **Pryor**. I want you to know that whatever you say right now is going to be in several hundred letters that I am about to send out this afternoon to constituents. So, please know that whatever you say is going to be quoted precisely.

Commissioner **Gibbs**. Senator, let's talk about the problem that the people have in terms of the alternatives that they face. The alternatives that a taxpayer faces at the present time are these. If a taxpayer does nothing, and if at the present time a taxpayer is being under-withheld, then a liability—a potential liability—to pay the taxes next year is accruing, and it is continuing to grow.

We are concerned because that impacts taxpayers, and it also potentially impacts the Internal Revenue Service, if at this time next year we find that taxpayers have done nothing in this interim period of time and are under-withheld. One of the ways to avoid that obviously is to use the present W–4 Form that we have out there. If people are unwilling or unable to do that, then another alternative would be for them to revise their one-third page—the actual W–4 Form, the little one there at the bottom. If they are being under-withheld, and I think most of them will know because they know whether their take-home pay went up or down after January 1, they could simply change line 5 of that form enough to bring them back to what was withheld last year—a dollar amount per pay period. That way, until we get through this, at least they would not be in the position of being further under-withheld.

Senator **Pryor**. Well, now, what about the penalty, the $500.00 penalty for guessing wrong under the new procedure?

Commissioner **Gibbs**. Let's talk about that penalty. There really are several potential penalties that are applicable.

Senator **Pryor**. Are these new penalties?

Commissioner **Gibbs**. No, they are not. They are penalties that have been in existence for quite some time. As Senator Heinz pointed out, the wording—perhaps the location in the instructions is different—but the wording of the penalty provisions in the W-4 instructions is identical in this form to what it was in prior years' forms.

Senator **Pryor**. But you have changed the point of accuracy, I believe. You have to get within a certain, say a 90 percent, accuracy range. Isn't this new?

Commissioner **Gibbs**. That is a new provision in the new law.

Senator **Pryor**. That is where I think you are going to catch a lot of taxpayers—right there.

Commissioner **Gibbs**. The $500.00 penalty is more a penalty for intentionally failing to fill out the form appropriately. That is something Congress aimed at tax protesters and folks of that ilk, who intentionally disregard or ignore their withholding obligations.

For a taxpayer who does not fall within the safe harbors—one safe harbor is to pay as much tax as in the preceding year. The other one is to come within 90 percent, under the new law of tax liability for 1987. If a taxpayer fails to fall within one of those two safe harbors, then there is a penalty that is equivalent to an interest charge on the amount of under-withholding that the taxpayer had. And that is one that is simply a failure to fall within the safe harbors.

It is not one where you have to have a bad intent, and frankly, it is one that I think most people are concerned about, because it is a dollar amount. I would say this for people who are concerned about that penalty: if they have attempted to fill out our form and have done so properly, and if there is something in our form—I don't anticipate this—but if there is something in our form that would cause them to be in a penalty situation under the existing form, then certainly, Mr. Chairman, we would waive that penalty because we have caused it, if there is a flaw or a problem within the form.

Secondly, with respect to people who are trying to comply with the tax law, who are trying to fill out the W-4 Form, and because of the problems that we have discussed this morning have had trouble doing so, I must tell you that I am sympathetic to finding some way, working with you perhaps, to avoid a penalty situation for those taxpayers. That is something that has been brought to my attention.

We will look at it, and we will come back with a proposal to you. I do not have one this morning, and I would like to—in the context of perhaps attempting to provide a new simplified form and so forth—address the whole area at one time. But I am sympathetic to people who are having problems and are concerned about being penalized, simply because they are trying to comply and having difficulty doing so.

Senator PRYOR. The W-4, as I understand it, Mr. Commissioner, is not just a 1987 problem. It is also going to be of equal magnitude in 1988 and perhaps in 1989.

Commissioner GIBBS. Mr. Chairman, as you know, we have five tax brackets—income tax brackets—this year. Next year we will go down to two income tax brackets. Under the new law, we have provisions that phase in over a period of years deduction provisions, tax benefits provisions, other types of provisions. We also have provisions that have been in the law that will phase out over a number of years. When you put all of this together, I think it is going to mean that taxpayers are going to have to review their W-4 Forms as all of this begins to take place over the next several years.

Senator PRYOR. Was anyone at IRS during the developmental stages of this W-4 Form aware of the mandate in the Senate Finance Committee report that stated very, very clearly that neither the Form W-4 nor the wage withholding tables is to be made more complex when they are revised in accordance with this provision of the bill? Did anyone in the Internal Revenue Service read the committee report with that mandate?

Commissioner GIBBS. Mr. Chairman, let me answer it this way. We read that paragraph, and we also read the one that immediately preceded it, which asked us to make the form as accurate as we could possibly make it. Because of the time constraints that we were under to get the new form out, when we came down to it and started dealing with the tension that I described a minute ago, between accuracy and simplicity, we opted to come up with a form that we felt would permit taxpayers to more accurately determine their withholding, based on their actual tax liability.

Senator PRYOR. I talked yesterday with the personnel office of one of our Arkansas businesses. They had just sent out 8,000 W-4 Forms to employees operating in several States. Since the time they mailed the forms out, the personnel office has done nothing except answer inquiries and questions about the new W-4 Form.

Another business in our State with even a larger payroll called on Monday and said they were prepared to send out, I believe, 10,000 or 11,000 W-4 Forms. "Should we mail them out or should we hold them? Is something about to happen that we can count on?" We need answers quickly.

Right now, the cloud of uncertainty is almost a paralysis over many of our companies, especially small businesses. We are going to receive testimony later, Mr. Commissioner, from the National Federation of Independent Businesses, from a CPA in North Little Rock, Arkansas who handles the filing of small businesses and average taxpayers, and a representative from H&R Block who has, we think, some suggestions.

I am sincerely trying to express to you to the very best of my ability the deep frustration out there in the country relative to this form. Now, Senator Heinz, the Commissioner has to leave shortly. I think he has to be on the House side at 10:00 before Congressman Pickle. Congressman Pickle is having difficulty filling out his W-4 Form. [Laughter.]

And we want the Commissioner to be on time, but I now turn the questioning over to Senator Heinz.

Senator HEINZ. I am tempted to make some kind of a wise guy remark about the Heinz-Pryor-Pickle problem. [Laughter.]

Or it is the Pryor-Heinz-Pickle problem. It used to be the Heinz-Pickle-Pepper problem.

Senator PRYOR. I remember that problem. [Laughter.]

Senator HEINZ. Mr. Commissioner, what are you in a position to say officially today about whether or not our constituents, who are also your constituents, as to whether they are going to be stuck with the same W-4 Form? Can you tell us and our constituents with certainly today that there will be a revised simpler W-4 Form or forms?

Commissioner GIBBS. Senator Heinz, let me address that this way. The Chairman has expressed the urgency and the need for action as quickly as possible. We understand that. We are moving heaven and earth to address the problems that have come out with the new form.

Because of the time pressures and because of the tension that I have mentioned, my guess is that assuming that we are able to come out with a new form and that is certainly what we are assuming at this time—my guess is that, in order to not have unacceptable levels of over- and under-withholding, the form will not be usable by all taxpayers. And that may well mean that for at least some time to come, some of the folks in this country—frankly the more affluent—would be required to cope with the present W-4 Form. We will also try to make suggestions, along the lines that I have mentioned this morning, and come up with something in the way of a safe harbor.

At the same time, one of the things that we are doing—and I want you to know this—we are not simply treating this as an isolated or a temporary problem. We are literally going back to the drawing board. We are going out to taxpayers and asking them about what they do when they fill out a W-4—what types of issues and problems they see. And we are doing that with the idea of attempting to come out later this year with something that would be a better approach to the W-4 Form. So, it may be in several steps.

Senator HEINZ. So, you are saying the following, as I understand it, and correct me if I am wrong: you are looking for a revised W-4 Form in the short run that would respond to the complexity problems created by this form and which would apply to a substantial number of median and below income taxpayers, but would not be appropriate for above median income taxpayers more or less?

Second, you are saying you do not know when you will be able to get that revised alternative W-4 Form prepared, and you have made no assurance that you will do it because you simply said you are working very hard at it—and no doubt, you are working very hard at it—but you have not made an assurance. You have simply said that that is your goal.

The third thing you have said is that you are really going back to the drawing board, and maybe later on this year there will be a totally different approach to what is now known as the W-4 process. Is that correct?

Commissioner **Gibbs**. That is correct. I would like to say something on the second point. The second point, in terms of the inability to give you assurances, is not because I do not wish to do so. I would love to be able to give you assurances, but I think that one of the things that we feel very deeply about—and I think you would too—is that we don't want to hurry to come up with a simple one that people can understand, but that in its simplicity has substantial under- or over-withholding.

Senator **Pryor**. By the way, let me ask you: What is wrong with that?

What is wrong with under- or over-withholding? I think this becomes a philosophical question.

Commissioner **Gibbs**. All right. Let's talk about that for a second.

Senator **Pryor**. I hate to interrupt Senator Heinz, but we will let him have some extra time. Excuse me.

Senator **Heinz**. Mr. Chairman, anybody who can quote scriptures like you can is not somebody I would ever want to wrestle with. Please proceed. [Laughter.]

Commissioner **Gibbs**. The problem with having too little tax withheld is that, when you get to this same time next year, and you are surprised to find that what you thought was the proper amount was not the proper amount, then you have to come up with the additional tax to pay to the Internal Revenue Service. If you have too much withheld, what you are going to find is that your paycheck—your take-home pay—has gone down in a way that you did not anticipate and that you find unacceptable.

Those two things underline what I think is really the key problem here. For years in this country, although we have had tax changes, the tax changes have really not affected most middle and low income Americans. They have been able to keep their W-4 Forms in place. They really have not had to deal with the increasing complexities of the W-4 itself because, by and large, their tax liabilities did not change.

With this new law—in taking 15 rate brackets down to five rate brackets now and to two rate brackets next year, in increasing the personal exemption from $1,080.00 last year to $1,900.00 this year and $2,000.00 next year—people don't know what this law does to them in terms of what their tax liabilities are going to be.

And therefore, when they fill out their W-4 and they simply put in an exemption amount, they really don't know what that means. They don't know what their tax liability is for 1987, and they don't know what their withholding liability is. That is why they can be surprised, Mr. Chairman, this time next year if they are underwithheld or when they get their take-home pay if they are being over-withheld.

Senator **Pryor**. How can any person estimate in 1987 what their medical expenses are going to be? How can any taxpayer be expected to do this?

Commissioner **Gibbs**. From the standpoint of medical expenses, I think it is fair to say that unless you have—and no one anticipates a disaster—but unless you have an absolute medical disaster, with the threshold as high as it is, it is unlikely unless you have very, very severe medical expenses that you are going to have a medical expense deduction. I think the situation that we are talking about is much more sitting down and projecting what your income is going to be—if you live in a house what your income expenses and real estate taxes are going to be, what your personal exemptions are going to be, this type of thing, to come down to taxable income and tax liability.

Senator PRYOR. Senator Heinz?

Senator HEINZ. Mr. Chairman, thank you. Mr. Commissioner, I want to talk for a moment about the penalties. A few moments ago in response to Senator Pryor's questions, you indicated that taxpayers would be fined $500.00 only if they had done something willful, and the criminal penalties were really only for very, very serious cases.

Now, that may be your intent, but that is not what is said in the form we are mailing out to taxpayers. What it says is: "You may be fined $500.00 if, with no reasonable basis, you file a W-4 Form that results in less tax being withheld than is properly allowable." "No reasonable basis" means to most people: I was careless. You know, I really don't have an excuse; I was just careless.

Now, maybe you won't in fact seek penalties against people who were careless or who, in the common sense of the word, have kind of no reasonable basis; but to say that you are only going to penalize people who did it willfully is not—while maybe a commendable statement—what this says.

Commissioner GIBBS. Senator, in describing "willfulness" I am talking about something other than that. The comment was made in the context of whether the problems that people are having with the form are in and of themselves a reasonable basis. I have said that I am sympathetic to trying to do something along those lines in terms of alleviating the burden of penalties for people who are trying to comply and are having trouble.

And indeed, I would really take my cue from the Congress since, in 1984 and in 1986, when the Congress passed substantial tax legislation that made it, during the course of a year, difficult for people to know what their tax obligation was going to be, Congress specifically waived any penalties for failure to estimate or have your tax withheld properly.

Senator HEINZ. I want to be very clear on something you have just said in the previous sentence, which is this. You said, as I understood it, that if people have made an inaccurate filing of the new W-4 Form because they were confused by the form that you would not seek penalties against them. Did I understand what you said correctly?

Commissioner GIBBS. Senator, what I am saying is this. I think that is the problem; and as I have said before, I will come back with a proposal to try to address that. I am concerned about that, yes.

Senator HEINZ. I know you are concerned about it, but it is very important that we clarify what you did say and what you are saying now; and that is that you are not saying what you said three or four minutes ago.

What you said three or four minutes ago—and I urge you to go read the record, and I bring it to your attention because I know you want to be very careful about what you say—and what you said was that if people are in effect careless, confused, by this form, you won't seek penalties against them.

Just now, you hedged on that; and you said, well, that is a concern. And what we are trying to do is figure out what your policy is as of today. Now, just a simple yes or no to the following question may put it to rest.

Will you seek penalties against people who make a mistake in the new W-4 Form because they have become confused by this or not? Yes or no?

Commissioner GIBBS. Senator, this is what the answer is, and this is what I was saying; it is precisely what I am saying. I would like to come back with a proposal that would address that issue.

Senator HEINZ. As of today, you cannot answer that question, because in the future you will come back with a specific proposal?

Commissioner GIBBS. Senator, what I——

Senator HEINZ. I am just trying to be clear.

Commissioner GIBBS. I understand, and I am trying to be clear as well. I am trying to say simply this. I am trying to say "yes, I am sympathetic in trying to develop that type of approach right today."

Senator HEINZ. But you haven't got that type of approach?

Commissioner GIBBS. No, I don't, and let me——

Senator HEINZ. Here is what we are asking: Do you have that type of approach today?

Commissioner GIBBS. No, and can I tell you why?

Senator HEINZ. Just tell me yes or no.

Commissioner GIBBS. I don't.

Senator HEINZ. All right, fine. That is what I thought that you said, and I understand why. I don't like it, but I understand it.

Commissioner GIBBS. Then, let's clarify it, because what I am saying is this: When we get to words like "carelessness," we are obviously talking about things that needed to be defined so that people can understand it. And I want to be sure that when we say things to taxpayers that they understand what we are saying and we understand what situation they are going to be in when we get to the point of having to apply whatever standards we have come up with. That is all I am saying, Senator.

Senator HEINZ. I understand that, Mr. Commissioner. Let me ask you this. A number of Senators—Senator Danforth, Senator Wallop, Senator Armstrong, Senator Roth, Senator Durenberger—have introduced legislation, S. 350. All it does is to waive the penalty and interest provisions of Section 6654 for those individual taxpayers whose estimated tax and withholding payments satisfy at least the 80 percent test of prior law. As you know the 80 percent was changed to 90 percent. That waiver in that legislation is temporary. It applies only to April 15, 1988; and it only applies to individuals, not corporations.

Given the kind of confusion that exists, should we in Congress enact that bill?

Commissioner GIBBS. Senator, I know of no reason not to. Let me say that I have not discussed this with the Tax Policy people at Treasury, but quite honestly—from the standpoint of expressing my personal point of view—the lowering of the 90 percent to 80 percent seems to me to be an appropriate way to go.

Senator HEINZ. Mr. Commissioner, you made a suggestion a few minutes ago—and correct me if I did not understand it correctly—that there was a way for people on the new W-4 Form to be safe rather than sorry. And as I understood it, what they should do is, on line 5 where it says additional amount if any you want deducted from each pay, to put in a number, the sum and substance of which would be that that number would be at least as big as what had been withheld the prior year. Did I understand you correctly?

Commissioner GIBBS. As an interim solution, that certainly is, yes.

Senator HEINZ. That was your suggestion?

Commissioner GIBBS. The question was: What do you suggest we do between now and the time you come out with something.

Senator HEINZ. Now, that counts for what someone does with line 5, and presumably they can get that information by going to the W-2 Form that they have had or got for calendar year 1986; and they find out how much their employer has withheld and they put that in. But then, they have a little problem, which is that they have got to figure out what it is they are going to put on line 4, which is the number of exemptions, the number of allowances, that are being claimed.

If they put in effect what they withheld in 1986, and they put 0, what happens if they put 0 on line 4?

Commissioner GIBBS. Zero, Senator, could cause a real problem unless they have been claiming zero on line 4. Here is what I am suggesting.

Senator HEINZ. So, there is a problem with that?

Commissioner GIBBS. That is correct.

Senator HEINZ. All right. Now, if they put a larger number than zero—1, or 2, or 3, or 4—is there a chance that they could be very substantially over-withheld, because don't lines 4 and 5 amount to—or aren't they in a sense added together in a complex calculation and the result is the amount that you will be withheld on?

Commissioner GIBBS. Yes, Senator. Let me explain what I was saying, though.

What I was saying is this. Many employees have an existing W-4 out there that they filled out a year or two years ago—some time before the beginning of this year. When they filled out that W-4, they filled in at least line 4 and possibly line 5. What I was attempting to express was, if that is what they have done and with the new tables that their employer began to apply to that old W-4 form beginning in January, the employee may well have found that his take-home pay went up because the withholding went down. This was simply because they took the old W-4, left it in place, and the employer took the new withholding tables and applied it against the old W-4 form.

They may find that their take-home pay went up because their withholding went down. I am suggesting that, if that is the case, that in the interim what they may want to do to avoid under-withholding and therefore tax liability problems this time next year, is to add back the amount that the withholding went down and their take-home pay went up.

Senator HEINZ. Is there any possibility that, if they did that, they might find that they have less take-home pay this year than last year?

Commissioner GIBBS. I don't believe so, Senator, for this reason——

Senator HEINZ. Now, you have a lot of computers. You have been up day and night, Saturdays and Sundays, as well as weekdays, simulating all kinds of alternative approaches. You have made a suggestion of a stop-gap measure until you get to some real answers. Have you taken a look at the consequences to the taxpayers of what you have suggested, because there are two consequences, both of which are potentially bad if you achieve them.

One is for people to be under-withheld and find that they owe a great deal more money on April 15, 1988, when in fact they don't have it. Most people tend to spend a little bit more than they earn, anyway. The other alternative is for people to find that, in fact, their paychecks are less, which will give them some sense of real confidence in Government that when we say that we will reduce their taxes, that we have done just the opposite. That is the kind of confidence that we will build, that whatever Government says, it is doing the opposite, whether it is simplifying or reducing taxes.

To what extent have you checked to see whether the decision rule that you have suggested would result in either one or both of those kinds of problems occurring?

Commissioner GIBBS. I will check it. I think what I am talking about is simply a computational matter. Let me explain again what has happened. When an employee has given the employer a W-4 with a number of exemptions in line 4, and that is simply on file, and the employer comes to 1987, the employer uses the new tables that we have sent and applies those new tables to whatever is on that old W-4 Form. I am suggesting if that happens—where the new tables are applied to the old W-4 Form with whatever is on that form, and there is a lowering of withholding and take-home pay—then if you just fill out a new W-4, add the same number of exemptions that you had on the old W-4 and increase line 5 by the difference, then——

Senator HEINZ. How do you know what that difference is?

Commissioner GIBBS. I think most people have a pretty good idea of whether their take-home pay has gone up or down, and what the magnitude of it is. Most people watch their pay close enough that they know——

Senator PRYOR. Senator Heinz and I don't know right now whether we are in that category or not. [Laughter.]

But I don't think it matters to Senator Heinz; it does to me. [Laughter.]

Senator HEINZ. I think it matters no matter who you are.

I have two questions for you, Mr. Commissioner. The first is: Why couldn't the Internal Revenue Service instruct employers to withhold the same dollar amount from their employees at least until July 1 or until the new forms that you say you are hoping to get out are out? And just forget the W-4 Forms for the next several months? Put them on ice.

Commissioner GIBBS. Senator, that is an interesting suggestion. I will be glad to take a look at it, but I think that the law in effect requires the employer to withhold on the basis of the information that the employee puts on the W-4, and not what the government tells the employer.

Senator HEINZ. It might be possible for us to make through July 1 or until such time as you provide a revised form for a substantial set of taxpayers; we might be able to give employers that kind of relief legislatively.

Commissioner GIBBS. Yes.

Senator HEINZ. I think we could get a concurrent resolution introduced in the House and the Senate that would do that, a joint resolution.

And if you and the President said, fine, we are for it, we could do it very quickly.

Commissioner GIBBS. That is something I would like to think further about because you may well have situations where employees are in the fortunate circumstances, for whatever reason, of being willing and able to——

Senator HEINZ. It will be known as the Pryor-Heinz bill because it was prior Mr. Heinz's bill, but Mr. Pryor will at my request introduce it.

[Laughter.]

Commissioner GIBBS. I would be glad to take that back, to take a look at it, and to give you a response.

Senator HEINZ. A second alternative would be, rather than having people do all of this, just use the E-Z 1040 and subtract the tax liability that they would estimate in the E-Z 1040 by the appropriate number of pay periods, and then do something with that number.

Commissioner GIBBS. Senator, this is one of the places where we run into some computational complexity. If you have a family with only one wage earner, or you have a single individual who has only one job, then that will work. What we are finding—one of the complexities that is causing us problems—are situations where you have a family with two wage earners or someone holds two jobs because, when they fill out their 1040, they stack one income on top of the other.

When each of them—when the husband and wife, for example—fill out a Form W-4, or when the individual fills out Form W-4 for separate jobs, the employer does not stack the income on top of one another. Therefore, you can have a situation where, if that is what you do, you can have substantial under-withholding. That is one of the computational complexities that we are dealing with.

Senator HEINZ. Mr. Commissioner, I thank you and Senator Pryor. I have a meeting I have to go to, but I hope to return in about 15 minutes. Thank you very much.

Commissioner GIBBS. Thank you, Senator.

Senator PRYOR. Thank you, Senator Heinz. Mr. Commissioner, how many W-4 Forms are there out there in the country right now? How many did we print up?

Commissioner GIBBS. Just a minute. Let me check that.

Senator PRYOR. By the way, is the director of forms here this morning?

Commissioner GIBBS. No, sir, he is back working on the simplified form.

Senator **Pryor**. By the way, we are going to put on in a moment a message from the director of forms, I think.

Commissioner **Gibbs**. I do have an answer for that. You asked how many had we printed up?

Senator **Pryor**. How many W-4 Forms?

Commissioner **Gibbs**. We have printed approximately 300 million.

Senator **Pryor**. How many?

Commissioner **Gibbs**. 300 million.

Senator **Pryor**. 300 million W-4 Forms. They would go back and forth to the moon, I imagine, with that many.

Anyway, my question is this. Now, I am serious, Mr. Commissioner. Before 300 million W-4 Forms were printed up and sent out all over this great land, how many average taxpayers did you let look at it. I am not talking about CPAs, and I am not talking about Internal Revenue Service employees. How many taxpayers got a chance to test this W-4 Form?

Commissioner **Gibbs**. Mr. Chairman, we did some testing of the form.

Senator **Pryor**. Some testing?

Commissioner **Gibbs**. Some testing—it was limited by the time that we had available. We basically took the form to our service centers, where we have many people who are not technicians; although they are Internal Revenue Service employees, they are not technicians at all in any way. And we tested the form in several of our centers.

Senator **Pryor**. With taxpayers?

Commissioner **Gibbs**. With taxpayers, asking them to fill them in. Yes, sir.

Senator **Pryor**. Without advice of the IRS employee there?

Commissioner **Gibbs**. Yes.

Senator **Pryor**. Without advice of the Certified Public Accountants?

Commissioner **Gibbs**. Yes. Now, let me also say that with the form that we are working on now, we have already taken versions of the form and gone out to non-IRS taxpayers. We have also been talking to a professional firm to give us advice with respect to the user friendliness of the form, to see how people cope with it, and that type of thing.

Senator **Pryor**. Now, Mr. Commissioner, I want to ask this question. How much do you think that a Certified Public Accountant or a public accountant is going to charge the average taxpayer to help and advise him in filling out the new W-4 Form? What do you think the going rate is going to be? You have practiced before, and you have a general idea about these matters.

Commissioner **Gibbs**. Mr. Chairman, I honestly don't know. I have never filled out tax returns in my practice, and I don't know what the going rate is. I don't even know what to guess. I don't know how much they are charging.

Senator **Pryor**. One of them in New York—and I know in New York they charge a lot more than they do in Arkansas, I assume—but in New York, I talked to a Certified Public Accountant who said that every time a taxpayer walked in there with a W-4 Form, there was an automatic $500.00 fee attached. Do you think this is average for our country?

Commissioner GIBBS. I don't know. That sounds high, but I—— [Laughter.]

Senator PRYOR. You know, the buzz word around here lately, Mr. Commissioner, in 1987 is "competitiveness." Everybody is trying to get on the competitiveness band wagon. And to be honest with you, the business people and the wage earners and everyone else that I have talked to lately about the W-4 say, we can't be competitive because we are using our energies and resources just to figure a way to fill out this form.

Commissioner GIBBS. Mr. Chairman, can I respond to that?

Senator PRYOR. Yes, sir.

Commissioner GIBBS. We recognize that. One of the things that we are doing, if it becomes necessary to leave the existing Form W-4 in use, is working at the present time on attempting to develop a software package for it. With it, you can simply call up screens, answer questions, and have the software package do the computations. We'll see if we can't come up with a way so that people can cope with the problems that you have just been discussing.

Senator PRYOR. Mr. Gibbs, I know that you have to go, and I am going to make just one final statement. Then, if Senator Durenberger has a question or two, we will call on him. I know that he and Senator Levin are going to speak in a moment.

This is my statement: The other day, I was having lunch with some of my colleagues down in the Senate dining room, and one of them said I see you are having a hearing on the W-4 Form, and I said yes. Another colleague said I also understand you had an hour meeting with Commissioner Gibbs, and I said yes. They said: Tell us what kind of a person he is. I said, well, you know, I wanted him to be a person who had horns; I wanted him to be someone that I would feel very comfortable flailing away at and someone that I could put on a dart board and throw darts at; but frankly, after my meeting with Commissioner Gibbs, I said, I liked the man.

I further told my colleagues, I think truly if Commissioner Gibbs had his way about it, he would do something about this form. He would do it now, but the problem, I think, with Commissioner Gibbs is that he is carrying a lot of baggage in the Internal Revenue Service that won't let him do it. So, I want to encourage you, that if you want to change this form, if you want to repeal this form, if you want to go back to the old method, if you want to take the mandate from the Senate Finance Committee, saying that this form shall be no more complex than the previous system, you are going to have the backing of not only the Congress but the American people.

In fact, someone said, well, is Commissioner Gibbs going to retract or repent and do something dramatic in the hearing; and I said, I doubt it. They said, Why not? I said, because if there is any way that Commissioner Gibbs wants to repeal the W-4, go back to another system, or a simpler method, he ought to let the President of the United States make that announcement. I truly believe that, because I think it would be a heck of a popular move for a President to make that announcement, that you don't have to fool with this W-4 any more.

Those are some personal observations I wanted to make, Mr. Commissioner. And now, Senator Durenberger, you have just a moment before this fleeing target goes over to the House of Representatives.

Senator **Durenberger**. Now that you have held him up——

Commissioner **Gibbs**. Mr. Chairman, could I make just a concluding remark then, sir?

Senator **Pryor**. Yes, sir.

Commissioner **Gibbs**. I appreciate your comments. I want you and the American public to know that the W-4 problems that we have been discussing this morning are of real concern to me personally and to my agency. I also want you to know that our goal is the goal that frankly was spelled out in the Senate Finance Committee report—namely, to try to come up with a form that for most, if not all, taxpayers will be accurate and will be simple.

I am finding, personally, no interference, not any baggage from folks within the Internal Revenue Service, Mr. Chairman. What I am finding is that those two goals are very, very difficult to accomplish, both accuracy and simplicity. But I can tell you this, and I can tell the American public this: we are going to work until we find a way to do it, and we are going to try to do it just as soon as we possibly can. You have my word on it.

Senator **Pryor**. Mr. Commissioner, I thank you. I would like to say that the clock is running. We have very little time to deal with this problem. There is a lot of pressure on the Congress. We, the Congress—a great institution, I think—very seldom do we act, very seldom; we react. We react as an institution, and that may be good and it may be bad. But that is the way we operate.

If you don't act, we are going to act; and we are truly reacting to what we have labelled as a "prairie fire" out there in this country in a sense of true frustration. You have been a fine witness. I look forward to working with you. Thank you, Mr. Commissioner.

Commissioner **Gibbs**. Thank you, Mr. Chairman.

Senator **Pryor**. I would like to welcome at this time as our witnesses Senator Durenberger and Senator Levin. Senator Durenberger is a member of this committee. He has been involved in this whole effort, and Senator Levin has been involved also. We look forward to their ideas. There has been some legislation that the two Senators have introduced, and we look forward to discussing it at this time.

I call on Senator Durenberger at this time.

[The prepared written statement of Commissioner Gibbs follows:]

STATEMENT OF
LAWRENCE B. GIBBS
COMMISSIONER OF INTERNAL REVENUE
BEFORE THE
SUBCOMMITTEE ON PRIVATE RETIREMENT PLANS
AND OVERSIGHT OF THE INTERNAL REVENUE SERVICE
SENATE COMMITTEE ON FINANCE

FEBRUARY 6, 1987

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM HERE TODAY AT YOUR REQUEST TO DISCUSS IRS FORM W-4, THE EMPLOYEE'S WITHHOLDING ALLOWANCE CERTIFICATE. IN MY TESTIMONY AND ANSWERS TO YOUR QUESTIONS, I WILL COVER THE MAJOR ISSUES INVOLVED IN CONSTRUCTING THE W-4 FORM AND RELATED INFORMATION. I WOULD ALSO LIKE TO BRING YOU UP-TO-DATE WITH RESPECT TO THE POSSIBILITY OF A SIMPLIFIED FORM AND INSTRUCTIONS.

AS YOU ARE AWARE, MR. CHAIRMAN, I HAVE ANOTHER APPEARANCE SCHEDULED ON CAPITOL HILL THIS MORNING, AND SO I WILL NOT BE ABLE TO STAY FOR THE BALANCE OF THIS HEARING. HOWEVER, IF YOU HAVE FURTHER QUESTIONS OR CONCERNS AFTER THIS HEARING, I WILL BE PLEASED TO WORK WITH YOU ON THEM.

THE TAX REFORM ACT OF 1986

THE TAX REFORM ACT OF 1986, WHICH WAS ENACTED IN OCTOBER OF LAST YEAR, MADE SEVERAL CHANGES TO AFFECT WITHHOLDING. FIRST, IT REQUIRED EVERY EMPLOYEE TO FILE A NEW FORM W-4 BY OCTOBER 1, 1987. SECOND, IT DIRECTED IRS TO MAKE WITHHOLDING MORE ACCURATE. AND, THIRD, IT REQUIRED THAT THIS NEW W-4 FORM BE DEVELOPED AND DISTRIBUTED ACCORDINGLY.

AS YOU KNOW, IN OUR TAX SYSTEM THERE IS A CONSTANT TENSION BETWEEN FAIRNESS AND SIMPLICITY. IN THE "WORLD" OF WITHHOLDING, THIS TRANSLATES TO A TENSION BETWEEN ACCURACY AND SIMPLICITY. IN DEVELOPING THE TAX REFORM LEGISLATION, CONGRESS AND THE INTERNAL REVENUE SERVICE REALIZED THAT TAX REFORM PRESENTED A UNIQUE OPPORTUNITY TO INTRODUCE MORE ACCURACY INTO THE WITHHOLDING SYSTEM. WHILE NOT PERFECT IN EACH AND EVERY CASE, OUR NEW FORM W-4 WAS REDESIGNED TO OBTAIN THE MOST ACCURATE ANSWER FOR THE LARGEST POSSIBLE NUMBER OF TAXPAYERS AMONG OVER 100 MILLION INDIVIDUAL TAXPAYERS. AT THE SAME TIME, IT ALLOWED MOST TAXPAYERS TO COMPLETE ONLY A SMALL PART OF THE FORM, AS MOST OF THEM HAD DONE IN THE PAST.

IT IS NOW CLEAR THAT IN OUR EFFORTS TOWARDS ACCURACY WE HAVE PRODUCED A FORM WHICH HAS CAUSED CONCERN FOR SIGNIFICANT NUMBERS OF INDIVIDUALS. VERY SIMPLY, THE LENGTH OF THE FORM AND NUMBER OF COMPUTATIONS HAVE WORKED AGAINST OUR EFFORTS TO ASSIST TAXPAYERS IN AN EARLY ADJUSTMENT OF THEIR WITHHOLDING

FOR THE EFFECTS OF TAX REFORM. IF THIS IS THE RESULT, THEN OUR EFFORTS TOWARDS ACCURACY ARE LESS PRODUCTIVE, AND IN THE LARGER PICTURE WE RISK HAVING THE PUBLIC'S PERCEPTION OF TAX REFORM NEGATIVELY AFFECTED.

## WHERE DO WE GO FROM HERE?

MR. CHAIRMAN, WE HAVE HEARD YOUR CONCERNS, AS WELL AS THOSE OF OTHERS IN THE CONGRESS, ON THIS ISSUE. WE HAVE ALSO HEARD SECRETARY BAKER'S CONCERNS, AS WELL AS THOSE OF TAXPAYERS THEMSELVES, MANY OF WHOM HAVE WRITTEN OR SPOKEN TO ME ABOUT THE W-4. AS YOU AND I HAVE DISCUSSED, MR. CHAIRMAN, WE BOTH SHARE THE BELIEF THAT IF THE CURRENT W-4 FORM IS NOT WORKING AS INTENDED FOR MANY AMERICAN TAXPAYERS THEN THE SERVICE SHOULD RESPOND WITH A SIMPLIFIED FORM.

FOR THAT REASON, I SENT OUR TECHNICIANS BACK TO THE DRAWING BOARD ON THE INSTRUCTIONS AND RELATED MATERIALS ACCOMPANYING THE FORM W-4. WE DO NOT EXPECT THE FORM ITSELF -- THE SMALL, ONE-THIRD PAGE SIZE SHEET THAT IS GIVEN TO EMPLOYERS BY EMPLOYEES -- TO CHANGE, BUT WE ARE WORKING ON WAYS TO SIMPLIFY THE INSTRUCTIONS AND WORKSHEET INFORMATION WHILE MAINTAINING SUFFICIENT LEVELS OF ACCURACY REGARDING TAX LIABILITY.

AS YOU KNOW FROM LAST YEAR'S TAX REFORM EFFORT, ADDITIONAL SIMPLICITY IN THIS CASE NECESSARILY INVOLVES A TRADE-OFF FOR ACCURACY. A SIMPLIFIED FORM WILL REQUIRE CERTAIN BROAD

ASSUMPTIONS AND WILL CONSEQUENTLY LEAD TO A LESS PRECISE CALCULATION. CURRENTLY, WE ARE REVIEWING ALTERNATIVES IN THIS AREA TO TRY TO DETERMINE HOW MUCH SIMPLICITY CAN BE ACHIEVED WITH ADEQUATE LEVELS OF ACCURACY.

WHILE I AM NOT IN A POSITION TO MAKE ANY ANNOUNCEMENTS OR PROMISES AT THIS TIME, WE ARE COMMITTED TO COMPLETING OUR REVIEW OF VARIOUS ALTERNATIVES AS SOON AS POSSIBLE. IN THIS EFFORT, I AGAIN PLEDGE THAT EVERY EFFORT WILL BE MADE TO INCLUDE YOU AND YOUR SUBCOMMITTEE IN THIS PROCESS.

I WILL BE GLAD TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.

Senator **Durenberger**. Thank you very much. I want to begin by commending you for holding this hearing so early in the year.

The three of us, Senator Levin, you and I, began our service here together. We also began on the Governmental Affairs Committee where normally we are used to this sort of thing—the bureaucratization and the overwhelming paperwork. And when they say 300 million forms went out, only we believe it because we have seen it before.

Now, in listening to your telling us how nice the Commissioner was reminded me of how nice a person Bill Bolger was, the Postmaster General, when he proposed a nine-digit zip code. That is when I came into the Senate. And here we are—we are no farther ahead in the bureaucratization of this process.

Mr. Chairman, this entire situation, should never have arisen. When we went through the Tax Reform Bill, we purposefully laid out the admonition, if you will—or the advice—to the Commissioner that you have thoughtfully put up there at your right rear; and we had every expectation that it was going to be carried out.

I don't know how much clearer any of us could have been in our direction to the Service. So, it strikes me that, despite the commitment of the Commissioner and the good humor that he brings to this whole effort, that somehow or other the IRS has just blatantly ignored that directive. And they have gone out and devised a form that is far more complex than the earlier W-4.

Quite frankly, I am amazed that IRS could be so indifferent to the demands of Congress, to devise such a convoluted tax form that only a well-paid tax accountant could interpret. We all know that if the tables were turned and a citizen so flagrantly ignored a directive from the IRS, that citizen would be subjected to reams of computer generated mail, threatened with penalties, interest charges, and assets seizures.

It is four pages in length. It is twice as long as the form it replaced and more complex than many actual 1040 income tax returns. In order for many taxpayers to compute their withholding allowances, they will have to apply a complex calculation and fill in as many as 46 separate items of information. That is more than twice as many calculations as required on the earlier form.

Mr. Chairman, even the IRS recognized the complexity of the form when it released the form. The instructions for the form suggest the taxpayers consult four separate IRS publications to make sure their withholding is correct. For example, a taxpayer may want to consult publication 919, which is entitled "Is My Withholding Current?," or the taxpayer may want to consult publication 505, which is entitled "Tax Withholding and Estimated Tax." The situation, Mr. Chairman, is ridiculous.

What we in the Congress sought to achieve in tax reform was a modicum of simplification. By devising this ridiculously complex form, the IRS has breached the public's confidence and the promise of tax reform. When we adopted the Tax Reform Bill, we raised the amount of tax liability that taxpayers must have withheld from wages from 80 percent to 90 percent.

Individuals who fail to meet the new withholding requirement are subject to an interest penalty charge under Section 6654 of the Internal Revenue Code. Mr. Chairman, I have introduced legislation, S. 350, along with Senators Danforth, Wallop, Armstrong, and Roth, that would waive the penalty interest provisions of Section 6654 for those individual taxpayers whose estimated tax withholding payments satisfy at least the 80 percent test of prior law.

This waiver is temporary. It would only apply until April 15th of 1988, and it only applies to individuals, not to corporations. I appreciate the Commissioner's earlier apparent approval of the provisions of that bill.

The failure of the IRS to develop a simple, straightforward W-4 Form makes it difficult, but not impossible, for most individual taxpayers to comply with the 90 percent withholding requirement we have outlined. I can assure you that millions of taxpayers will make a good faith effort to fill out the Form W-4, only to find out that, when the tax returns are due, they haven't met the 90 percent requirement.

To subject these taxpayers to the penalty interest charges of Section 6654 would just not be fair. So, for that reason, I introduced S. 350. It recognizes that taxpayers will inevitably make errors in calculating their withholding only because the IRS has not provided a suitable form for calculating that withholding.

The 90 percent withholding requirement allows taxpayers little margin for error. My legislation allows taxpayers greater leeway in 1987 to assess the appropriate amount to withhold without being subject to the statutory penalties.

Once the taxpayers have had a chance to compare their 1987 withholding calculations with their final 1987 tax liability, they will then be able to recompute their withholding in 1988 to meet the 90 percent test.

In the meantime, IRS should make every effort to redesign the current W-4, and you have given them every reason and every opportunity today, Mr. Chairman, to accomplish that while under your watch.

Mr. Chairman, that concludes my statement. I would ask the unanimous consent of the committee that a statement by our colleague, Steve Symms, and the reference he makes here to his own bill, S. 457, be included in the record following my testimony.

Senator PRYOR. Without objection, Mr. Symms statement will be put in the appropriate part of the record.

Senator DURENBERGER. Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Durenberger. Please don't leave because I want you, Senator Durenberger, and Senator Levin to see a very short moment—maybe just a minute or two—of the film that the Internal Revenue Service has put out, a video tape. They are sending this out across the country to advise taxpayers how to fill out their W-4 Forms. It is truly a remarkable film, and I hope that both of you will stay to see it.

As I mentioned earlier, I don't think either of you two were in the hearing room at that time, but we have located only one of these films. There are 20,000 copies going out. Only one of them could be found in Arkansas, and there is a two-week wait for people to get it. And I guess the presumption is that the person has a VCR, and I don't know how many VCRs we have in our poor little State—just a few, I imagine.

Senator Levin, you have done some good work in this area. We look forward to hearing your statement.

## STATEMENT OF THE HONORABLE CARL LEVIN, U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator LEVIN. Mr. Chairman and Senator Durenberger, I am delighted to be here today to join you in trying to force an improvement in this disastrous system. I don't know if I am going to wait to see that film, Mr. Chairman, because I opposed the amount of violence we have in our films.

If my hunch is right as to what is on this film, it may cause more violence, and I usually like to avoid that.

Senator PRYOR. It may instigate a little violence; we will have to see it.

Senator LEVIN. Mr. Chairman, the W-4 Form is a disaster. It is complex; it is confusing. It is also, if I can suggest, misleading. It leads people on in one area that it shouldn't, and I want to get to that a little later on. I don't know that it has been addressed yet.

The tax system depends on voluntary compliance. It depends on trust. And this W-4 Form is going to do severe damage to this tax system, which is based on voluntary compliance. The first taste that people have of the new Tax Reform Law is that W-4 Form; and people are absolutely and understandably bewildered by how anybody can say that this system is supposed to be simpler and fairer when they first face a form such as we are inflicting on them.

There are two parts to this bill that I have introduced. The first part is similar to the bill that Senator Durenberger has introduced and for the same reasons. The reasons for the provision that Senator Durenberger described to maintain the 20 percent margin of error instead of reducing that margin of error to 10 percent are obvious. We have a new, complex tax system, which has people astounded and people dizzy.

It is exactly the wrong time to reduce the margin of error on withholding. There couldn't be a worse time than right now to tell folks that they are going to be penalized if they are off by just 10 percent instead of the usual 20 percent. I mean, if we had to go out and select a moment to reduce that margin of error, this would be exactly the wrong moment to do it. It is also the wrong moment because we are now telling people: Wait, there is going to be a simpler form. This delay is itself going to increase the under-withholding.

So, for all kinds of reasons, we ought to continue the 20 percent margin of error instead of reducing it to 10 percent at this time. I agree with Senator Durenberger and his bill. The only difference in that regard between his bill and mine is that my bill will do it for two years instead of the one, the reason being that we won't have enough experience until March or April of next year when most people fill out their 1987 tax returns to know how they should fill out their next W-4 Form.

If they really fill it out in January or February of next year as they are supposed to, they are not going to have the experience—that is, most people won't—to know what is the correct W-4 for

1988. Since most people fill out their returns in March and April, I would suggest that we keep this 80 percent provision through the 1988 tax year and not just for 1987.

I don't know whether that is a major difference between the two bills. I think it is important; but the basic point in the bill which Senator Durenberger described and in my bill is, for heaven's sake, keep the 80 percent provision now.

There is a second provision in my bill that I want to briefly mention to the committee, and that has to do with the fact that employers are going to be overwhelmed with W-4 Forms, and they may be slow in implementing the changes that have to be made in withholding as a result. The sheer volume of W-4 Forms, which many employers are going to face, particularly small business people may result—may result—in employers not being able to make the adjustment in the usual period of time, which is typically 30 days.

If that happens, we could find that employees who have properly and promptly filed their W-4 Forms with their employers still being under-withheld through no fault of their own, but only because of the mass W-4 Forms which that employer has to contend with. So, we would waive the penalty in the law for any employee who has a promptly, properly filed W-4 Form but whose adjustments are delayed by the employer, through no fault of that employee at all. So, that is the second point of this bill that I am introducing.

Now, one quick comment, and then I will conclude.

There has been a lot said about the complexity of that form, and I couldn't agree with it more. It is a disaster and a horror. People are going to delay filling it out.

First of all, they don't want to pay people to help them; and we have heard of folks charging others a lot of money to help them with their W-4 Forms. No one should have to face that. The natural human instinct is to delay filing it. It is complex. Who wants to face that thing?

The longer you delay, though, the greater the chance of under-withholding and a penalty. So, the form through its complexity encourages delay. But it also through its actual wording may encourage delay, and I want to read that. This is where I think it is misleading.

"When must I file the form?," which is in the instructions. It is No. 2. "Give your employer a new W-4 Form as soon as possible." That is good advice. "While the law requires you to file a new form before October 1, 1987, you are urged to file early to avoid incorrect withholding.'

Now, they are not told that if they obey the law and get it in by October 1, they can still be penalized. This is a very important point. We are telling people right there that the law says you have got to do it by October 1. We don't tell them clearly that, even if they obey that October 1 deadline and get it in by then, they can still be penalized.

As a matter of fact, the longer they delay towards October 1, the greater the likelihood they will be penalized. We urge them to do it early, but we don't tell them we are going to clobber you if you don't do it early. Urging people to do it early is one thing. Telling them what happens if they don't do it early—which is that they are likely to increase their chances of under-withholding and that means a penalty—is a very different thing. And I believe it is necessary if we are going to be straight-forward with folks.

So, I would suggest that when they simplify the form, they also be straighter with people as to what happens if they don't get it in as soon as possible and wait until September to get it in, which the law allows them to do.

So, that is the change that I think they also ought to make to make sure that they are not leading people on when they talk about the October 1 deadline.

Mr. Chairman, let me commend you and Senator Durenberger. You are attacking a major problem out there in all of our communities. You are doing it in your usual forthright ways and I commend you for holding this hearing, and I thank you for giving me the chance to testify.

Senator **Pryor**. I want to thank you, Senator Levin and Senator Durenberger, because I think the approaches that you are taking in both pieces of legislation are proper, valid, and justified. And I think the perception that both of you have is correct, that this is not just a 1987 problem. This is a 1988 problem. It is a 1989 problem. When people see this W-4 Form, they are being led to believe that if they do this it will be the end of it. It will be unpleasant, but over. However, it is a continuing situation, until all of the tax bill is figured in and takes effect.

I think both of the pieces of legislation that you have introduced deserve merit and consideration. As we mentioned to the Commissioner, unless he does something very soon, the Congress is going to respond. We are going to react. We are going to react to this upheaval out in this country and what the people believe to be unfair.

Both of you have been very good witnesses this morning, and I want to thank you for coming.

Senator **Levin**. Mr. Chairman, if I could just add one quick comment?

Senator **Pryor**. Certainly.

Senator **Levin**. And I think Senator Durenberger would agree. Even if the IRS does simplify this form quickly and does avoid any misleading suggestion in that form or lack of clarity as to what the penalty is, even if you file on time, this legislation is needed. Even if the IRS acts, I think Senator Durenberger would agree that either his bill or my bill—and there is not much difference—it is just a matter of whether the 20 percent is reduced to 10 percent next year or the year after——

Senator **Durenberger**. That is correct.

Senator **Levin**. We need legislation even if the IRS acts.

Senator **Pryor**. It is really beginning to concern me more and more, though, when the IRS states here this morning that they are about to simplify this form. I don't know if they know how to simplify a form or not, and this deeply concerns me.

The other thing that worries me is that very few average taxpayers had an opportunity to go through this new form and be tested before the IRS mailed out 300 million of the W-4 Forms, creating the present chaotic situation.

If both of you would remain for just about two minutes, I think we have just a two-minute segment of the IRS film. By the way, don't punch it yet. The reason I have the film today is because this is the film—20,000 copies—that are going out across the country—and I thought that some of our colleagues might like to see how the IRS is attempting to explain its own simplified W-4 Form. I have seen it.

[Whereupon, at 10:05 a.m., a short segment of a film was shown on the W-4 Form.]

Senator PRYOR. Now, you can see that if the CPAs don't all get rich out of this thing, the Excedrin people will, because it is very confusing. With all due respect to the Internal Revenue Service, I don't think this film is going to help to clarify the confusion that we are all dealing with right now.

Senator LEVIN. Mr. Chairman, when he said, "'Now take that number on line 'n' and . . ." I can just see the average viewer out there finishing that sentence——[Laughter.]

It won't be finished in the same way he finished that sentence. [Laughter.]

Senator PRYOR. I got the subtlety of that statement. I don't know if everyone else did. [Laughter.]

We thank you, Senator Levin and Senator Durenberger. By the way, I would love to invite both of you to hear our panel. We have a panel of three good witnesses, and we would love to have both of you participate with us, if you would like to stay.

Senator LEVIN. Thank you, Mr. Chairman.

Senator DURENBERGER. Thank you, Mr. Chairman.

Senator PRYOR. We have now Mr. John Motley, Mr. Mikel Wood, and Mr. Al Golato. Mr. John Motley is Director of Federal Legislation, National Federation of Independent Businesses; Mr. Mikel Wood is a Certified Public Accountant of North Little Rock, Arkansas; and Mr. Al Golato is Public Affairs Director of H&R Block and Company. We are deeply appreciative of the three of you coming this morning. We look forward to what you have to say. We understand you have a short opening statement for the record. We would invite you to proceed formally or informally; and I think that all three of you gentlemen have heard the testimony this morning previously given by Mr. Gibbs and also by Senator Durenberger and Senator Levin.

We certainly look forward to your statements today and hopefully you can help us in offering some constructive solutions to the problems that we face. Mr. Motley?

[The prepared written statement of Senator Levin follows:]

# TESTIMONY OF SENATOR CARL LEVIN BEFORE THE FINANCE SUBCOMMITTEE ON OVERSIGHT OF THE INTERNAL REVENUE SERVICE WITH RESPECT TO W-4 WITHHOLDING FORMS

February 6, 1987

Mr. Chairman:

I want to thank the Subcommittee for offering me this opportunity to testify regarding the new W-4 withholding forms in general, and, in particular, on legislation -- S. 388 -- which I have introduced to deal with some problems that are likely to arise in relation to the new W-4 forms.

The requirement that all employees file new W-4 withholding forms will, for many taxpayers, be their first actual taste of the new tax reform law. Many are already asking in bewilderment how the new four-page form is simpler than the previous two-page form. Moreover, many two-wage-earner couples who were assured that tax reform would reduce the "marriage penalty tax" may be surprised when preparing their W-4 forms to find out that a marriage penalty tax still exists and is going to either reduce the size of their tax cut or actually give them a tax increase.

I am encouraged by Secretary of the Treasury Baker's remarks that he will ask the IRS to look into redesigning the form, and I am encouraged by reports that the IRS is considering various options. However, I am concerned that there is yet no committment to have it redesigned promptly. I urge the Secretary of the Treasury to direct that the IRS take steps immediately to simplify the new W-4 form. The longer the delay in taking action THIS year, the greater the risk that many taxpayers will -- out of frustration and confusion -- take no action to revise their withholding status, thereby increasing the probability that many will be substantially underwithheld and, as a result, be hit with penalties.

However, even if the new W-4 forms are simplified and clarified, other problems will arise in relation to them which the Congress should take action NOW to anticipate and mitigate. It will be far better -- from the perspective of both the well-being of the taxpayer and respect for the tax code -- if the Congress acts with calm deliberation this year to address and avoid those problems instead of acting with the frenzy of a bucket brigade next year.

I introduced S. 388 with this in mind. This legislation has two basic parts.

First, under the new tax reform law there is a need for taxpayers to reconsider the number of exemptions claimed, in part because the value of each exemption has almost doubled. What concerns me, in the first instance, is the following situation: A taxpayer acts conscientiously in filing a new W-4 form and requests a change in the number of exemptions...BUT because the employer is overwhelmed by the sheer volume of W-4 forms that results from the requirement that all employees file new W-4 forms, the employer does not act in a timely fashion to make the requested adjustments. The end result may be that employees may be substantially underwithheld through no fault of their own, and may end up owing a large lump sum paymant to the IRS on their '87 returns...AND even penalties on top of that.

I have contacted staff with the IRS and representatives of small business in my state of Michigan. Although I have been told that most small businesses would probably be able to process the forms in a timely fashion, there was a recognition that problems may arise in some firms.

Whereas, in one respect we could take comfort in knowing that this would only be a problem in a minority of cases, I am concerned about those instances in which it does happen. How many of us will want to tell constituents who have been penalized through no fault of their own that we knew that this kind of injustice could arise with respect to the W-4 form, but we didn't think it would happen frequently enough to address in advance?

I was informed that if taxpayers saw that their employers were not making the withholding adjustments in a timely fashion, they could file estimated taxes in order to assure that they were adequately withheld. But, it is not a practical approach for constituents who are already confused by the new W-4 form to be told, "Don't worry if your boss doesn't act on your W-4, you can always file estimated taxes."

Finally, while the current law provides that a penalty for underwithholding can be waived if "the Secretary determines...the imposition of such addition to tax would be against equity and good conscience," that is not an adequate safeguard. How is it in the spirit of tax simplification to tell taxpayers that they -- or their lawyers -- may be able to make a case that they should be given a waiver under the general waiver provision?

The legislation I have proposed would eliminate any penalty on an employee for underwithholding when that employee properly filed a W-4 form that would have prevented substantial underwithholding had the employer adjusted the employee's exemptions on the withholding schedule in the time period required by law, which is approximately 30 days. This legislation would be in effect for 1987 and 1988, the two years in which it is envisioned that all employees would have to file new W-4 forms.

The second section of the legislation I have introduced would protect taxpayers from being unfairly penalized as a result of how they fill out their W-4 form. Under the new tax-reform law, the margin of error permitted when taxpayers are underwithheld has been decreased. Previously, taxpayers were subject to a penalty if less than 80% of what they owed in a current taxable year was withheld during that year. The tax reform law raised that figure from 80% to 90%. In other words, the margin of allowable error has been reduced from 20% to 10%.

Although this might have made sense as a measure to improve taxpayer compliance if the tax code were otherwise relatively unchanged, increasing the required technical precision on the W-4 form for withholding at a time when there are massive changes in the tax code -- and uncertainty about the taxpayers' understanding of it -- is downright unfair. In 1987 and 1988, such changes -- both in the rates and in the deductions -- are under way. We have to keep in mind that although members of the Congress may know what's deductible in 1987 compared with 1986 and what's deductible in 1988 compared to 1987, the general taxpayer must be far more uncertain.

Also, many taxpayers filing new W-4 forms in January and February of 1988 won't yet have the full benefit of the experience resulting from the filing of the W-4 form in 1987. Many will not yet have filled out their 1987 tax returns and will be unaware whether their assumptions in filing out the W-4 form in 1987 have led to substantial underwithholding. They would know this by April of 1988, but that would be several months after they should have filed their new W-4 forms for 1988 -- a classic Catch-22 situation.

There are added reasons for retaining the 80% figure for 1987. Many employers are not making withholding changes until February of 1987 at the earliest. As a result, many taxpayers have been underwithheld for January. Many employees will not file W-4 forms in February, or March, or April, either. They are confused by the form, have heard that there is an October 1 deadline, and, thus, will naturally delay. All of this -- on top of the underwithholding that may result from taxpayers' difficulty in adjusting to the substance of the changes in the tax law and the new W-4 forms -- may be enough to lead to substantial underwithholding and a penalty. Moreover, if taxpayers wait to file W-4 forms this year until "new and improved" forms become available, then the chances for substantial underwithholding through no real fault of their own are further increased.

In a very real sense, it seems that the new tax law is narrowing the bull's-eye at the same time that it is itself shaking the target. Those who favored the tax reform bill last year talked of the bond of trust that it was intended to engender between the taxpayer and the government. But I am concerned that the requirement for greater technical precision in withholding at the same time that taxpayers are so uncertain about the provisions of the new law -- and how those provisions are likely to affect them -- will create cynicism and not trust, anger and not goodwill.

Now, it is true that under the tax-reform law taxpayers may avoid the penalty for underwithholding if the amount withheld in the current year is 100% of the taxes owed in the previous year, even if the amount withheld in the current year is less than 90% of what turns out to be owing in taxes in the current year. The difficulty, however, is that we are told that most taxpayers will receive a tax cut in the current year as compared to last year. If so, it only logically follows that many taxpayers in the current year will have withheld less than 100% of what they owed in taxes last year. Therefore, looking to the relationship between the amount withheld in taxes in the current year compared to the amount paid in taxes last year is not an adequate safeguard against taxpayers' being unfairly penalized.

The legislation I have introduced would retain the 80% withholding standard for 1987 and 1988, the years during which there is likely to be the greatest uncertainty about the tax reform bill. As such, it is not at all inconsistent with the basic thrust of the tax reform bill of improving taxpayer compliance. It seeks to assure, however, that what we gain in compliance is not at the cost of common sense and common fairness.

And speaking of common fairness, I urge the IRS when it revises the W-4 form to end using language that amounts to deceptively lulling taxpayers into a false sense of security. The form states on page 1 that the law requires employees to file new W-4 forms by October 1. It also states that employees should file the new W-4 form "as soon as possible" in order to avoid "incorrect withholding." What it should state clearly and upfront is that waiting until October 1 will increase the chances that the employee will be hit with a $500 penalty for underwitholding. The form should also explicitly state that the 80% withholding requirement (or 90% if the current law stands) applies regardless of when employees file their W-4 forms. Filing by October 1 doesn't avoid penalties for underwithholding. It only avoids having taxpayers' exemptions on their withholding forms reduced to two or one, depending on their marital status. If the October 1 date is not going to be changed, it is essential that taxpayers be clearly warned that waiting until that date may mean a $500 penalty for them on top of a big lump-sum payment with their '87 return as a result of their being substantially underwithheld.

In summary, the current form is not only confusing, it is misleading. It must be promptly changed in both respects, whether or not legislation we are proposing passes.

That legislation will have some impact on revenues and I have asked the Joint Committee on Taxation for an official estimate. We must be mindful of the revenue impact and, therefore, the deficit impact of the legislation we propose. However, it should be clear at the outset that a Congress which granted billions of dollars of special relief and special privileges to specific businesses as part of last year's tax bill simply must now find the money to provide relief to the general taxpayer who might otherwise be penalized through no real fault of their own.

Mr. Chairman, it is no secret that I have many doubts about the wisdom of many aspects of the new tax reform law and that I voted against both the Senate version and the final conference report. It would not surprise me if during the next few years there are calls for major changes in it. However, at a minimum we should try first off to ensure that taxpayers' initial encounter with it not result in their being penalized when they have made a good faith effort to comply. The spirit of fairness which tax reform strove to embody requires nothing less.

## STATEMENT OF JOHN J. MOTLEY, DIRECTOR OF FEDERAL LEGISLATION, NATIONAL FEDERATION OF INDEPENDENT BUSINESSES; AND ABE SCHNEIDER, LEGISLATIVE REPRESENTATIVE FOR TAXES, WASHINGTON, DC

Mr. MOTLEY. Thank you, Senator Pryor. On behalf of NFIB's more than 500,000 small business members across the country, I would like to thank you for the opportunity of testifying here today. Before summarizing my statement for you, I first of all would like to congratulate you and Senator Grassley for introducing your Taxpayer's Bill of Rights.

I think you are probably aware that IRS is not necessarily the most favored agency of most small business owners across this country, and we look forward to working with you on that bill as you proceed with it through this Congress. I think you are also well aware that NFIB supported tax reform and the actions of the Senate Finance Committee during the last Congress from the beginning.

Our members were very interested in seeing the Tax Code reformed for many reasons, but one of the primary reasons was because they wanted to see a good deal more simplicity in the Code. What they found out, and what we all found out rather quickly was that simplicity immediately clashed with fairness and, as usual, simplicity lost.

While we were very, very concerned about what was happening in the writing of the tax bill, I think we all had a great deal of trepidation because we realized that the real proof was going to actually be in the issuing of the IRS regulations that implemented tax reform.

And I might say here that IRS was certainly not slow to disappoint us. The first new form, the W-4 Form withholding form, that has been issued to implement tax reform was certainly a blockbuster. In fact, it probably knocked the cause of simplicity back at least a decade.

I am really not here today to testify on the particulars of the W-4 Form and the complexities of the form. Two gentlemen who are appearing with me can probably do that much better than I can; but what I would like to stress to the committee is the strain on the employer-employee relationship that this form seems to be causing across the country.

From the letters and telephone calls that we have received at NFIB, employers seem to have two major concerns. First of all, they are concerned about a loss of on-the-job productivity and also of the resources that they have to use to overcome some of the concerns of their employees.

Second, they are also concerned about guilt or blame by association with this new W-4 Form. Let me explain those two for a second if I can.

First of all, it is readily acknowledged by everybody that this form is tremendously complex and difficult to fill out. It is time consuming and it is frustrating for most employees. Many employees turn to their employers for help in this situation. So, what you have is a situation where employees are actually taking time out of work to get the help that they need to fill out the form to give it to their employers. Many employers—ones that have called us—have volunteered the use of their accountants or their in-house tax staffs to help their employees fill out this form. is a loss to the employer in running his business.

The other thing that they seem to be extremely concerned about is if this situation worsens, if any of their employees actually get penalized for filling out these forms improperly, that there will be blame by association because there is no way you can deny that the employer is definitely connected with the filling out and the filing of W-4 Forms.

The irony of all of this, which I think you probably realize very well since you supported it, is that the Senate, in our estimation, had a chance to do something about it during tax reform. Senator Sasser offered an amendment on the Senate floor, which was adopted, but you actually lost in conference, bringing IRS under the Regulatory Flexibility Act. IRS has traditionally opposed being included under the Small Business Regulatory Flexibility Act and also in complying in the Paperwork Reduction Act.

NFIB believes that compliance with both of these statutes would mean avoiding problems like the W-4 Form and the infamous auto log flap of last year.

Let me conclude my statement by simply urging two things. Number one, that you and your committee closely monitor the issuing of any new regulations to implement the Tax Reform Act of last year for their impact on smaller businesses. Small business people, especially those who operate at the margin, simply cannot afford the hidden costs that are involved in compliance and the filling out and the paperwork with some of these forms.

In addition, I would like to suggest that the committee might like to review once again the exemption that the IRS has to the Regulatory Flexibility Act. It is the only Federal agency which is exempt, and also its compliance record with the Paperwork Reduction Act. It is our contention that, if the IRS had complied with both, we believe that these hearings and the flap last year over contemporaneous auto logs would not have occurred; and these hearings would not be necessary today.

Thank you, Mr. Chairman.

Senator PRYOR. Mr. Motley, I appreciate your coming here today, and we respect very much the NFIB and the positions that you take, representing small business people all over America. We are very indebted to you for your statement today. We may have some questions in just a moment.

Mr. MOTLEY. Thank you, Mr. Chairman.

Senator PRYOR. Now, we want to hear from the front line. We want to hear from someone who has been out there in the trenches and the foxholes with the taxpayers of North Little Rock, Arkansas, in the central part of our State. In fact, one of the first times that I ever heard of the new W–4 Form and what was actually happening and what it really looked like was from a young Certified Public Accountant in North Little Rock, Arkansas, who has traveled here for this hearing today, Mr. Mikel Wood. This is Mikel's first time, by the way, in Washington, D.C. He is not only a CPA; he is a former auditor with the Internal Revenue Service.

So, Mikel, we look forward to your statements and your constructive suggestions as to how we might proceed.

[The prepared written statement of Mr. Motley follows:]

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NFIB

STATEMENT OF

JOHN MOTLEY
DIRECTOR OF FEDERAL LEGISLATION

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Before: Senate Finance Committee, Subcommittee on Private Retirement Plans and Oversight of Internal Revenue Service

Subject: New IRS Withholding Exemption Form W-4

Date: February 6, 1987

Mr. Chairman, my name is John Motley, and I am the Director of Federal Governmental Relations for the National Federation of Independent Business(NFIB). On behalf of the half million small business owners who are NFIB members, I wish to thank you for allowing me to appear before you today to discuss the issue of the new W-4 withholding form.

At the outset let me say that NFIB strongly supported this committee's efforts to reform the Internal Revenue Code, and we supported the Tax Reform Act of 1986 (TRA). The tax reform efforts in the 99th Congress were led off by President Reagan and his introduction of the President's Tax Proposals to the Congress for

Fairness, Growth, and Simplicity. As we all know, it did not take very long for the debate to lose sight of the simplicity part of the bill. In fact simplicity disappeared entirely in the ensuing debate over fairness.

A former member of the Ways and Means Committee was once quoted as saying that equity and simplicity in the tax code were mortal enemies. These words appear to be very prophetic for, as we are beginning to see, the TRA resulted in very little tax simplification.

As representatives of small business, NFIB was very concerned over the issue of simplicity as a feature in any tax reform legislation. During the tax reform debate, we took every opportunity to point out both to the members of the committee and to the staff alternative approaches which could help small business by simplifying the statutes. Some of these suggestions were partially included in the committee's efforts, but not enough emphasis was placed on the simplicity aspect of this bill. However, we all realized that the real litmus test of tax reform ultimately would come when the IRS began to issue the new forms and regulations associated with tax reform.

As a result of IRS introducing this new W-4 form as the first new form issued after enactment of tax reform, the IRS has driven the efforts at simplification of our tax code back to the one-yard line. Considering that this form should be among the simplest that IRS will issue as a result of tax reform, the mind boggles as to what they will do with the more complex forms.

The new exemption withholding form was mandated in the TRA. At the time the committee members and staff reasoned that with the dramatic changes in tax rates and exemptions, all taxpayers would suffer drastic shifts in their tax liabilities. Therefore, the TRA required IRS to issue a new W-4 withholding exemption form and required all taxpayers to submit the new form to their employers by October 1, 1987.

An additional incentive for making sure that an individual's withholdings are correct was provided by narrowing the safe harbor used to determine if an individual was under-or over-withheld. Formerly if an individual's withholdings equaled at least 80% of this tax liability, no penalty would be assessed. In the TRA, this figure was increased to 90%. This is a pretty narrow margin for error, therefore new withholding forms were deemed a reasonable procedure.

The IRS had an additional incentive for ensuring that all employees readjusted their withholding forms. The IRS is very embarrassed by excessive overwithholding, which results in many American taxpayers using the IRS as a bank. However, the IRS discounts the average citizen's absolute fear of the IRS. Any accountant will tell you that a client prefers to be overwithheld than to have to pay additional taxes at year's end. We may consider this attitude unsophistocated, but this is the prevalent attitude.

Small business became aware of the new form when the IRS began mailing copies of the forms to all employers at the end of 1986. The IRS informed employers of the requirement that all employees refile W-4's before October 1 of this year. However, when employees began to try to fill out the form, the problems began.

I am not going to dwell on the complexity of filling out the form as that has been dealt with sufficiently by previous statements. Clearly, though, the real failure of the new tax form was that the IRS was trying to get people to think about 1987 taxes when everyone else just began thinking about 1986 taxes.

We would all be amazed, but the average worker will not focus on or care about what tax reform does to him until he has to file his taxes in April, 1988 for the 1987 tax year. Employees who were being asked to file the new W-4's found themselves being asked a series of questions dealing with the new tax law that they were ill prepared to answer. What was also unclear from the instructions is that estimates are acceptable.

An employer's relationship with his employees is always one fraught with land mines. Suddenly, employers are being thrust into the role of IRS enforcers, having to threaten their employees to ensure that they file these new W-4 forms. Failure to file a new W-4 will result in an IRS penalty or in excessive withholding.

Many employers are forced to spend large chunks of work time providing individual guidance to employees filling out these forms. Many even assumed the expense of placing their company accountants or accounting staffs at the employees' disposal for assistance.

The new forms are overly complex in their presentation of necessary information, and the forms appear to be designed to achieve maximum shock effect. For example, step 3, which implores an individual to use the worksheet and claim all of the exemptions he is entitled to, finishes with a warning of a $500 penalty for being underwithheld and warns of criminal penalties for supplying false information.

It is our opinion that the IRS form is a failure. It is overly complex in its presentation. It requires an employee to proceed through a series of calculations and tables designed to come up with a number approximating the number of withholding exemptions for an employee. However, for anyone who has bothered to go through the form, the results do not translate into any tangible number which makes sense, because the instructions do not provide the basic information necessary to understand how much an exemption is worth.

Small employers are concerned that erroneous W-4 forms may come back to haunt employees later, and the employer may ultimately be blamed for not withholding enough. Obviously this tension places a new responsibility on the employer for ensuring that employees understand these new forms. This is not an employer's job.

It is ridiculous to impose the new underwithholding penalties in the first year of such a massive shift in tax liabilities. Congress should provide a one-or two-year grace period from these penalties to allow time for employees to adjust their withholdings, which undoubtedly will be necessary after they file their first tax returns under tax reform.

During the Senate's debate on tax reform, an amendment was accepted to require the IRS to conform to the provisions of the Regulatory Flexibility Act. The amendment was introduced by Senator Sasser and was passed by the Senate, only to die in conference due to staff misconceptions of the impact of this bill. At the time of the debate on this amendment, I recall several Senators complaining, on behalf of the IRS, that the amendment was simply an attempt at IRS bashing.

In fact the Regulatory Flexibility Act is on the books now and is being complied with by virtually every agency but the IRS. The basic tenet of the Act is to require an agency, when promulgating a regulation, to perform an analysis to determine if the proposed regulation will impact on the small business community in a disproportionate manner.

If a disproportionate effect on small business is determined, the agency is authorized to develop a reasonable alternative to obtain the same information.

Small business advocates strongly support IRS compliance with this act because IRS rules affect virtually all small businesses and are the most burdensome rules a small business faces.

Is it too much to ask the IRS, when drafting a rule, to determine whether their information demands are unreasonable for a small firm? The IRS has fought against implementation of this Act and is in questionable compliance with the provisions of the

Paperwork Reduction Act. But the agency continues to impose recordkeeping rules and paperwork requirements on small firms which are repetitive, unnecessary, too complex, and too costly for a small firm to comply with.

If the IRS were complying with the Regulatory Flexibility Act and the Paperwork Reduction Act, forms of this kind would not be issued because an internal warning system would be activated when a form of this kind were proposed. Nor could regulations which are patently absurd, like the auto log rules of last year, find their way into the Federal Register.

The IRS must realize that when it costs more to calculate tax liability than to pay the actual tax, compliance and confidence in the tax system are eroded. Small employers are especially sensitive to complexity in the tax law and to the constant changes that the tax law brings.

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## STATEMENT OF MIKE D. WOOD, CERTIFIED PUBLIC ACCOUNTANT, G. R. MASSEY & CO., P.A., NORTH LITTLE ROCK, AR

Mr. Wood. Thank you, Mr. Chairman, for the opportunity to be here. There is no doubt that the W-4 is far too complicated for most taxpayers to fill out. There are a few lines that anyone can, but then there are about half of them that tax myself and my cohorts. I have had statements ranging from "Why don't I just send the Government my paycheck and let them send me back what I ought to have?" to "I am going to put zero down; I don't care."

They also call me and say, "What do I put down? How many?" They think I have got some magic, you know, that I can just tell them right then. Not many of my clients can go down the form and say what an adjustment to income is. They don't know if they are going to get an IRA deduction or not. They don't know what "qualified investment" and "business losses" are. They don't know how to compute their child care credit.

For the most part, they are just saying, "I quit." You know, "I am going to put down zero; if it works fine, and if it doesn't fine." Probably if we could have gotten a commitment out of the Commissioner on the $500.00 penalty, I would go back and suggest to my clients that they have at least as much tax withheld as prior year's liability; but he hedged a bit on that, and I don't think we can safely say that that $500.00 penalty is not going to be applied if we use that method. That is about the only solution that I have come up with.

Senator Pryor. Is your practice primarily small business and individual taxpayers?

Mr. Wood. Yes, sir. We do approximately 400 individual——

[Whereupon, at 10:20 a.m., the hearing was recessed.]

### AFTER RECESS

Senator Pryor. Thank you for your patience. I have just been given this little candle, and I was about to light it, but I don't think we will need it now. But thank you for your patience, especially to our panel. Mr. Wood was in the middle of his statement, I believe, or maybe we were in the questioning period.

Mr. Wood. Close to the end.

Senator Pryor. All right.

Mr. Wood. I guess the bottom line is that all of the instruction booklets mentioned in the W-4 instructions are in excess of 70 pages. The taxpayer is not going to spend the time to get them. They are not going to call the toll-free number because the line is always busy. They are not going to go get them, and then they are certainly not going to read them. I don't think the American taxpayer ought to have to pay an accountant to figure out how much should be withheld from their paychecks.

Senator Pryor. Mr. Wood, when the typical taxpayer walks into your office—and once again, we say that you are from the trenches and from the front lines—is the W-4 Form the first issue that they bring up with you? Or is it among the first?

Mr. Wood. That probably depends on whether they think they are getting a refund this year or not. If they think they are getting a refund, we go ahead and talk about the current year's information. And if they think they are not, then we get to the W-4 first.

Senator PRYOR. What about telephone calls into your office on the W-4?

Mr. WOOD. Probably I have had 100 at least so far on it. I am sure the employers of these clients have had a like amount.

Senator PRYOR. Do you find a lot of uncertainty out there among taxpayers as to whether we are going to continue with the W-4 or discontinue it?

Mr. WOOD. Right now, the ones I have dealt with are approaching it as if it is here to stay. They are griping, you know. "Can't you do anything about that? What do I pay you for?" and that kind of thing.

Senator PRYOR. By the way, are they mad at their Senator?

Mr. WOOD. They preach a little bit every now and then. That wasn't one of my clients that went blind and 65 on line (a), was it? [Laughter.]

Senator PRYOR. What about the penalty provision, Mr. Wood? Do they bring this up?

Mr. WOOD. The estimated tax calculation doesn't worry them too much, but the $500.00 that is sitting over there in the instructions concerns most of them. And I am sure that if I fill out their W-4 Form for them and that $500.00 penalty got applied, they are going to pass it on to me.

Mr. Golato of H&R Block, we look forward to your statement, and I think you may have some solutions for us. We will just say it: We are saving the best for last because now we are ready for some solutions.

[The prepared written statement of Mr. Wood follows:]

Testimony of
Mike D. Wood
Subcommittee on Private Retirement
Plans and I.R.S. Oversight
February 6, 1987

Senator Pryor, I appreciate the opportunity to give my opinion of the complicated Form W-4 worksheet.

After working through a couple of examples, I found that the worksheet which accompanies the W-4 Form, works properly as far as computing the number of withholding allowances necessary to have ninety percent of one's tax liability withheld, if the estimate of income and expenses are fairly accurate. However, the average American taxpayer does not have sufficient knowledge of our tax laws to properly complete the worksheet. The ones who are knowledgable about our tax system probably don't have the patience to fill it out.

On more than one occasion I have heard my clients say, "I am just going to put down zero allowances", or "I am giving my paycheck to the government and let them send me back what they want me to have".

Going down the worksheet line by line, my observations are as follows:

Lines A through E - straight forward, most taxpayers can fill out these lines with no problems. Almost everyone knows how many dependents they have and, if they can be claimed as a dependent on someone else's tax return.

Line F - Adjustments to Income - the instructions for the worksheet say to enter the total of:

1) qualified reimbursed employee business expenses,
2) qualified alimony payments made,
3) deductible business and investment losses,
4) penalty on early withdrawal of savings,
5) qualified contributions to an IRA account or Keogh Plan.

Most people would have no problem with two and four, but would be fairly uncertain of how to compute one, three, and five. Number five is especially complicated for most taxpayers. The people I have heard discussing their IRA situation either think that no one will be allowed an IRA deduction or that they are entitled to a deduction when in reality they are not. They do not understand the phase out of the deduction due to the adjusted gross income limits and coverage by an employer's pension plan. The instructions say to get Publication 590 for details. Most people are not going to get a publication and spend the time required to understand it.

To get an Internal Revenue Service publication, you have to go to an IRS office and pick one up or if there is not a local office, you must call a toll free number to order it. Some of my clients have, on occasion, tried to call the toll free number with little success. The line is busy every time they call. So even if a person is willing to invest the time to understand the tax laws, the taxpayer service system usually frustrates them so much that they give up.

Line G - Itemized Deductions - Part of this section is simple enough for laymen to understand, but how many people know what qualified investment interest is? How many taxpayers can accurately compute a casualty loss of their miscellaneous itemized deductions for 1987? The instructions call for Publication 553 to fully understand what miscellaneous itemized deductions are, and that only the amount of these which exceed 2% of adjusted gross income are deductible.

Again, most people are not going to go to an IRS office to pick these publications up and they probably will give up trying to order these publications after the third time they get a busy signal on the IRS toll free lines. Even if they are persistent and get the necessary publications, filling out the W-4 becomes a start and stop kind of chore with a "now where was I?" frame of mind accompanying each new start.

Line J - Allowances for 65 or over, and/or blind - It takes a considerable amount of time to decide which amount to add if this section is applicable, but it is not overly complicated. Many people will not try to figure this line out because, at this point, they are intimidated and overwhelmed by the worksheet.

Line K - Estimated Tax Credits - Child care credit, earned income credit, and business credit carryforwards, are the main items involved here. I think the average taxpayer would have a great deal of difficulty in computing any of these.

Line R - Working spouse? More than one job? - In reality filling in this line is not difficult, but it does require time and concentration on doing this step by step. Table A is a little confusing. It would probably test the patience of the average American taxpayer.

If line U is zero or less, then you must go back to the instructions and go through a six line formula to come up with a dollar amount of additional tax to be withheld even though zero allowances are claimed.

I have given some thought to trying to find an easier way of coming up with the necessary number of withholding allowances. I came up with a solution, but there are potential problems with code section 6682.

Code Section 6682 applies a $500 fine to anyone who files a Form W-4 that results in less tax being withheld than is properly allowable, if there is not reasonable basis for the way the Form W-4 is filled out. Reasonable basis is not defined.

In the absence of Code Section 6682, having as much tax withheld as one's 1986 total tax liability would be my suggestion. In other words, arrive at the necessary dollars to be withheld and back into the number of withholding allowances to put on Form W-4 by reading the appropriate withholding tables. This method would not be very accurate for someone whose income fluctuated significantly between 1986 and 1987. Working spouses would have to be sure that they had sufficient withholding between the two of them.

My overall opinion of the Form W-4 worksheet, is that it is much too complicated for most taxpayers to complete. They should not be expected to get the necessary publications and study them to get the knowledge necessary to fill this form out.

Even for accountants to fill them out properly, the estimates of income and expenses must be fairly accurate. Many of my clients want me to fill out their W-4 for them. I am reluctant to fill them out, because to estimate within ninety percent of one's tax liability is difficult. Even though it is an estimate, I foresee many problems with estimated tax penalties and the blame for them being passed on to the accountants. The $500 fine, under Section 6682, would probably also be passed on to the accountant if it were applied. It would only take a few of the $500 penalties to make me look for another profession. Even if I enjoyed filling out these worksheets, the American taxpayers should not have to pay an accountant to figure how much to withhold from their paychecks.

## STATEMENT OF AL GOLATO, CORPORATE DIRECTOR OF PUBLIC AFFAIRS, H&R BLOCK, INC., WASHINGTON, DC

Mr. GOLATO. I don't know if we have any solutions, but thank you very much, Mr. Chairman. I am Al James Golato, the Corporate Director of Public Affairs for H&R Block. I appreciate the invitation to present testimony for your committee's consideration about this form.

I doubt whether I can add anything new to what has already been said, but I think it is important for you and the record to show that my comments are coming from this type of an organization, representing this many people.

H&R Block, which is headquartered in Kansas City, MO, is the nation's largest income tax preparation service with close to 8,000 company-owned and franchise offices, employing over 45,000 competent men and women in their respective communities throughout the country.

Block employees last year prepared over nine million Federal income tax returns. That is almost 10 percent of the returns—the individual returns—received by the Internal Revenue Service. And we also prepared millions of State and local income tax returns.

Aside from the Internal Revenue Service, we deal with more Federal income taxpayers than any organization or individual. As a result of this close association with many average taxpayers—and I emphasize that because you and the other Senators earlier were concerned about that—we have a good perspective about their views on taxes are probably one of the best sources to articulate them.

Now, I understand well the Internal Revenue Service's challenge in trying to develop simple forms and instructions to implement usually unavoidable complexity in the tax laws.

As a matter of fact, I was there, so I know the problem. We at H&R Block also know well the difficulties the masses of average taxpayers face in trying to cope with the forms and instructions while trying to comply with these laws.

So, we are not too surprised, either with the new W-4 tax withholding form, with its worksheet and instructions, or with the public's negative reaction to them. As employers began distributing them to employees last month, our offices began to get a flurry of phone calls and visits for help.

Soon, the calls and the visits became a steady stream of confused and anxious taxpayers. Since it was too early for our regular tax return preparation business, our company-owned offices and participating franchises offered to prepare the W-4 free for anyone as a public service until February 1.

Now, although we don't have the final count—and I checked just this morning on that—the fact is I can tell you that we were very, very busy, both on the telephones and in person in our offices throughout the United States. During January—and this is another perspective—I traveled throughout the country visiting many of our offices and appearing on over 45 radio and television shows and being interviewed by over 12 news reporters. This is just for the month of January.

In every single appearance, the first question I was asked either by the media representative or by a viewer or a listener on talk shows—many of which I appeared on—and the question was: Why was the new W-4 so complex? So, you see, these are not isolated problems, and this comes from, as I say, a source that deals with numbers.

Now, in all my years in the tax and public affairs business, I have never observed such widespread negative public reaction on a single issue within such a short time.

Mr. Chairman, I will now briefly summarize four specific concerns about the new W-4 that we have perceived during this one month's concentrated involvement.

One—and some of these, of course, I don't even have to say them—but there is almost unanimous public opinion that it is too complex, especially for average taxpayers. Oh, sure, you will have some people say: Oh, yes, we can deal with that; but these are sophisticated accountant types.

I am sure I don't need to expand on this because your committee's hearing actually was motivated in part by the mass confusion the new W-4 caused. Item two. Many taxpayers are anxious about being penalized, not only if their W-4 results in less tax being withheld than is required, but also if more tax is withheld than is necessary to meet the correct tax obligation at the end of the year.

Now, I know the instructions do not say so, but the anxiety is there nevertheless because of the comprehensiveness—If I may use that word instead of "complex"—of the forms.

Three. Some smaller employers, we have been told, refuse to accept the new W-4 from employees who wish to claim zero allowances. Now, I have been unable to determine the reason for this, but it is a relatively frequent allegation by people coming to some of our scattered offices. Now, again, that may be due to being unable to comprehend the penalty provisions, but that is something which is rather unusual.

And four, many taxpayers who have used the tax withholding system as a forced savings plan by deliberately claiming fewer allowances on the W-4 Forms are now concerned that the new worksheet will prevent them from exercising that option. This year's confusion will turn to disappointment next year when they don't get the refund they have become accustomed to getting.

Since an overwhelming majority—close to 80 percent, as a matter of fact—of taxpayers in the past received refunds after filing their tax returns, it can be safety assumed that many will want to continue that practice even now.

We are pleased, of course, that the Commissioner of Internal Revenue is responding to the public reaction and to your committee to the new W-4 Form and is going to try to have his staff consider alternatives. We in our offices have developed our own worksheet, but the worksheet, Mr. Chairman, is not the type that is used by the public. It is a type that will permit our people to help those who come in to prepare their W-4; and it helps to accommodate those people who insist on getting a refund, so we built that into the calculation.

And it is a type of calculation which is not as precise in its attempt to reach the dollar figure as the Internal Revenue Form; but we don't think in calculating average taxpayers' tax liability in advance that it is that necessary to be that precise, especially when many of them—or most of them—want refunds.

Now, we think issuing two versions is a good idea: one, a much simpler if less precise, optional short form type, and another a more precise type, perhaps the one already issued for those who are willing to cope with or who are going to have professional assistance anyhow.

The important thing is to assure that the simpler version because of its possible impreciseness should slant towards slight over-withholding and a possible refund at the end of the year, rather than under-withholding and a balance due.

This would also make taxpayers electing to use the simpler W-4 calculation feel more confident that they are not skirting a penalty for under-withholding. We suggest that the simpler version, if adopted, also be a different color of paper for speedy selection and isolation and separation.

We also think that Congress should expand the safe harbor or tolerance gap between the tax obligation and the amount withheld from 10 percent to 20 percent, temporarily before having a penalty assessed, by the way, as Senator Durenberger and Senator Levin and others have proposed. We think that would be very important, and it would rebuild public confidence.

As a final note, Mr. Chairman—and perhaps not really directed to solving this problem, but I think it is an observation that is interesting if nothing else—some will say that the W-4 worksheet issued by the Internal Revenue Service effectively gets employers to do what banks objected to doing, and that is to withhold taxes from dividends and interest. Mr. Chairman, I will be pleased to answer any of your questions, including by the way, if you are interested, what our company's charges are for these things.

Senator PRYOR. I would be curious, Mr. Golato. What would the charges be?

Mr. GOLATO. The charges will be—and I think it is important merely because of what we heard this morning. Our company will charge now, after doing it free for a month—but now we have gotten so busy with the regular tax preparing—$3.00 for anyone who comes in and has done their regular tax return and they want the W-4 also prepared; that will be $3.00. For those who come to us not to prepare their regular tax return but only the W-4, we will charge $10.00.

If they return later to have their regular return done, we will give them a $7.00 credit.

Senator PRYOR. That is a lot more reasonable than the $500.00 that we talked about this morning.

Mr. GOLATO. Yes, sir.

Senator PRYOR. Now, did the Internal Revenue Service, Mr. Golato, run by the H&R Block Company this proposed W-4 in its earlier stages to see what you or your company might think of it?

Mr. GOLATO. No, Mr. Chairman, they did not.

Senator PRYOR. Had they done this, let's say back about December 1 or mid-December, what would have been the response of H&R Block?

Mr. Golato. It is hard to say whether we would have caught whatever problems they have gotten involved in and short-circuited it; but the fact that our people, while doing it free over the past month, came up with a calculation sheet that takes only perhaps 20 minutes—or 15 minutes—to do it, even though it is built in with a bit of impreciseness—very little, but favoring the refund—then I think that perhaps we would have at least been able to say that these are problems you are going to encounter, and you should be aware of the average taxpayers.

Too often, Mr. Chairman—too often—the Internal Revenue Service and people who deal with potential problems on forms and instructions receive advice, and they have been coming to us with regular forms—something relatively new over the past three years—but too often they seek advice of highly sophisticated tax practitioners who are interested more in fewer issues, but more elegant, than they are in the mass types of problems that the average taxpayer gets involved in. There are millions out there.

Senator Pryor. Mr. Golato, it is my understanding—and I may be wrong—that you are a former employee of the Internal Revenue Service?

Mr. Golato. Yes, sir. I am a former revenue agent, and then I became the National Director of Public Affairs, and I was assistant to three Internal Revenue Service Commissioners.

Senator Pryor. Were you here this morning when we showed the tidbit from the film the IRS has sent out across the country?

Mr. Golato. Yes, sir.

Senator Pryor. Did that surprise you?

Mr. Golato. It is embarrassing.

Senator Pryor. Don't you also think it is confusing?

Mr. Golato. Yes, there is no question about it. The excerpt that I saw there is about as confusing as the form itself is. As a matter of fact, it is more so. When you have the form, you can keep going back to it. When you look at that, it is pretty difficult to keep switching back and forth, you see.

Senator Pryor. It kind of reminds you of a flea jumping around from place to place, the way they are instructing us to do it. One final question. I visited recently by phone with Mr. Henry Block in Kansas City, and he was talking about the issue of refunds; and I think you mentioned refunds today.

You know, refunds have almost become—I don't want to say it—but a way of life. Mr. Block stressed this fact to me, and I guess I had never thought of it before. It is a forced way of saving. And this is why I asked the IRS Commissioner earlier in the hearing: What about his philosophy? What is wrong with refunds or underpayments? I don't know that we received an answer that was very clear; but I am wondering what might happen if, say, you over withheld $1,000.00 or $2,000.00; and you paid interest to the Government on that amount for that period and went on about your business. I think that is one of the complaints that we have had in the past.

And conversely, if you have overpaid, then maybe the Government could pay the taxpayer interest for the money they have had for that period of time. I don't know whether that would work. Has that ever been considered?

Mr. GOLATO. I don't know whether it would work to pay the interest simply because most of these refunds are being issued, and they are attempting to issue them immediately. Therefore, they gave themselves—the Internal Revenue Service—some space there. However, I think it is important.

We often hear from people presumably who know a lot about finance that you don't want the Internal Revenue Service to hold onto your money; it is better in your pocket. The fact remains, and we know this through extensive experience: we are not talking about dollars and those figures where the loss of interest means that much. We are talking about amounts in loss of interest that could be $15.00 to $25.00. You pay more than that for a credit card.

The fact remains that this system, that many taxpayers insist on using, which is a forced saving, is nothing more than a modern-day old Christmas club type of thing; and furthermore, most people were they to get those extra few dollars in their paycheck would not in fact put it aside. So, when April or next June comes up, they would have in effect a vacation fund. And many people do use this process for a vacation fund.

Senator PRYOR. Among those clients that your company serves, have we created, let's say, a new wave of fear of the IRS and the penalty provisions, that you have to go within the 90 percent accuracy range or you are going to be penalized? Are we building in a whole new atmosphere of fear of the Internal Revenue Service?

Mr. GOLATO. It would be presumptuous of me to state unequivocally whether we are or not, but let me merely state a couple of items for your attention.

One is that we see these employers refusing to accept a zero allowance. What motivates that? We hear people say that they want to continue to get refunds even if that means over-withholding, and yet we have gotten the definite impression that people are concerned that they can't do that because they feel they will be penalized, and they will not.

And then we have the other who, because of the tolerance amount narrowed from 20 percent to 10 percent, very many people now are concerned about that as well, because of the penalty provision and the tightening of it. And I am sure you have heard; many people are starting to say that there is a great deal of tightening and turning of the screw on a lot of Internal Revenue Service provisions.

Some people are starting to say that, instead of using it more as a compliance instrument, it is being used as a fund raising instrument. So, having said that, I think you can draw conclusions.

Senator PRYOR. You have been a very splendid witness, Mr. Golato.

[The prepared written statement of Mr. Golato follows:]

TESTIMONY OF AL JAMES GOLATO
CORPORATE DIRECTOR OF PUBLIC AFFAIRS,
H & R BLOCK, INC.

BEFORE THE SENATE FINANCE COMMITTEE'S
SUBCOMMITTEE ON PRIVATE RETIREMENT PLANS
AND OVERSIGHT OF THE INTERNAL REVENUE SERVICE

HEARING ON THE NEW FORM W-4 FOR INCOME TAX WITHHOLDING

FRIDAY, FEBRUARY 6, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM AL JAMES GOLATO, CORPORATE DIRECTOR OF PUBLIC AFFAIRS FOR H & R BLOCK INC.

I APPRECIATE THE INVITATION TO PRESENT TESTIMONY FOR YOUR COMMITTEE'S CONSIDERATION ABOUT THE NEW FORM W-4, FOR WITHHOLDING INCOME TAX FROM WAGES AND SALARY.

H & R BLOCK, INC. HEADQUARTERED IN KANSAS CITY, MISSOURI, IS THE NATION'S LARGEST INCOME TAX PREPARATION SERVICE WITH CLOSE TO 8,000 COMPANY-OWNED AND FRANCHISE OFFICES EMPLOYING OVER 45,000 COMPETENT MEN AND WOMEN IN THEIR RESPECTIVE COMMUNITIES THROUGHOUT THE UNITED STATES.

BLOCK EMPLOYEES LAST YEAR PREPARED OVER NINE MILLION FEDERAL INCOME TAX RETURNS--ALMOST 10 PERCENT OF THE INDIVIDUAL INCOME TAX RETURNS FILED WITH THE INTERNAL REVENUE SERVICE. WE ALSO PREPARED MILLIONS OF STATE AND LOCAL INCOME TAX RETURNS.

ASIDE FROM THE INTERNAL REVENUE SERVICE, WE DEAL WITH MORE FEDERAL INCOME TAXPAYERS THAN ANY ORGANIZATION OR INDIVIDUAL. AS A RESULT OF OUR CLOSE ASSOCIATION WITH SO MANY TAXPAYERS--NOT ONLY IN PREPARING THEIR TAX RETURNS BUT FREQUENTLY IN THEIR CONTACTS WITH

THE IRS--WE HAVE A GOOD PERSPECTIVE ABOUT THEIR VIEWS ON TAXES AND ARE PROBABLY THE ONE BEST SOURCE TO ARTICULATE THEM.

WE UNDERSTAND WELL THE INTERNAL REVENUE SERVICE'S PROBLEMS IN TRYING TO DEVELOP SIMPLE FORMS AND INSTRUCTIONS TO IMPLEMENT THE USUALLY UNAVOIDABLE COMPLEXITY OF TAX LAWS.

WE ALSO KNOW WELL THE DIFFICULTIES THE MASSES OF AVERAGE TAXPAYERS FACE IN TRYING TO COPE WITH THE FORMS AND INSTRUCTIONS WHILE TRYING TO COMPLY WITH THESE LAWS.

SO WE ARE NOT TOO SURPRISED, EITHER WITH THE NEW W-4 TAX-WITHHOLDING FORM WITH ITS WORKSHEET AND INSTRUCTIONS, OR WITH THE PUBLIC'S NEGATIVE REACTION TO THEM.

AS EMPLOYERS BEGAN DISTRIBUTING THEM TO EMPLOYEES LAST MONTH, OUR OFFICES BEGAN TO GET A FLURRY OF PHONE CALLS AND VISITS FOR HELP. SOON, THE CALLS AND VISITS BECAME A STEADY STREAM OF CONFUSED AND ANXIOUS TAXPAYERS.

SINCE IT WAS TOO EARLY FOR OUR REGULAR TAX RETURN PREPARATION BUSINESS, OUR COMPANY-OWNED OFFICES AND PARTICIPATING FRANCHISES OFFERED TO PREPARE THE W-4 FREE FOR ANYONE AS A PUBLIC SERVICE UNTIL FEBRUARY 1. ALTHOUGH WE DO NOT HAVE A FINAL COUNT OF THE NUMBER OUR OFFICES PREPARED, I CAN TELL YOU WE WERE VERY BUSY.

DURING JANUARY, I TRAVELED THROUGHOUT THE COUNTRY, VISITING 32 OF OUR OFFICES, APPEARING ON 45 RADIO AND TELEVISION SHOWS, AND BEING INTERVIEWED BY REPORTERS FROM 12 NEWSPAPERS. IN EVERY APPEARANCE, ONE OF THE FIRST QUESTIONS I WAS ASKED--EITHER BY A

MEDIA REPRESENTATIVE OR BY A VIEWER OR LISTENER ON TALK SHOWS--WAS WHY THE NEW W-4 WAS SO COMPLEX. IN ALL MY YEARS IN THE TAX AND PUBLIC AFFAIRS BUSINESS, I HAVE NEVER OBSERVED SUCH WIDESPREAD NEGATIVE PUBLIC REACTION ON A SINGLE ISSUE WITHIN SUCH A SHORT TIME.

MR. CHAIRMAN, I WILL NOW SUMMARIZE FOUR SPECIFIC CONCERNS ABOUT THE NEW W-4 THAT WE HAVE PERCEIVED DURING ONE-MONTHS CONCENTRATED INVOLVEMENT.

1. THERE IS ALMOST UNANIMOUS PUBLIC OPINION THAT IT IS TOO COMPLEX - ESPECIALLY FOR AVERAGE TAXPAYERS. I'M SURE I DON'T NEED TO EXPAND ON THIS SINCE YOUR COMMITTTEE'S HEARING WAS MOTIVATED IN PART BY THE MASS CONFUSION IT CAUSED.

2. MANY TAXPAYERS ARE ANXIOUS ABOUT BEING PENALIZED, NOT ONLY IF THEIR W-4 RESULTS IN LESS TAX BEING WITHHELD THAN IS REQUIRED, BUT ALSO IF MORE TAX IS WITHHELD THAN IS NECESSARY TO MEET THEIR CORRECT TAX OBLIGATION AT THE END OF THE YEAR. I KNOW THE INSTRUCTIONS DO NOT SAY SO, BUT THE ANXIETY IS THERE NEVERTHELESS.

3. SOME SMALLER EMPLOYERS, WE HAVE BEEN TOLD, REFUSE TO ACCEPT A NEW W-4 FROM EMPLOYEES WHO WISH TO CLAIM ZERO ALLOWANCES. WE HAVE BEEN UNABLE TO DETERMINE THE REASON FOR THIS, BUT IT IS A RELATIVELY FREQUENT ALLEGATION BY PEOPLE COMING TO SOME OF OUR SCATTERED OFFICES.

4. MANY TAXPAYERS WHO HAVE USED THE TAX WITHHOLDING SYSTEM AS A FORCED SAVINGS PLAN BY DELIBERATELY CLAIMING FEWER ALLOWANCES ON THEIR W-4, ARE NOW CONCERNED THAT THE NEW WORKSHEET WILL

PREVENT THEM FROM EXERCISING THAT OPTION. SINCE AN OVERWHELMING MAJORITY (CLOSE TO 80 PERCENT LAST YEAR) OF TAXPAYERS IN THE PAST RECEIVED REFUNDS AFTER FILING THEIR TAX RETURNS, IT CAN BE SAFELY ASSUMED THAT MANY WILL WANT TO CONTINUE THAT PRACTICE.

WE ARE PLEASED TO KNOW THAT THE COMMISSIONER OF INTERNAL REVENUE IS RESPONDING TO THE PUBLIC REACTION TO THE NEW W-4 AND IS HAVING HIS STAFF CONSIDER ALTERNATIVES.

WE THINK ISSUING TWO VERSIONS IS A GOOD IDEA; ONE A MUCH SIMPLER "SHORT FORM", AND ANOTHER, PERHAPS THE ONE ALREADY ISSUED. THE TAXPAYER WOULD THEN HAVE A CHOICE. THE IMPORTANT THING IS TO ASSURE THAT THE SIMPLER VERSION, BECAUSE OF ITS POSSIBLE IMPRECISENESS, SHOULD SLANT TOWARDS SOME SLIGHT OVERWITHHOLDING AND A POSSIBLE REFUND AT THE END OF THE YEAR, RATHER THAN UNDERWITHHOLDING AND A BALANCE DUE. THIS WOULD ALSO MAKE TAXPAYERS SELECTING TO USE THE SIMPLER W-4 FEEL MORE CONFIDENT THAT THEY ARE NOT SKIRTING A PENALTY FOR UNDERWITHHOLDING.

WE ALSO THINK THE INTERNAL REVENUE SERVICE SHOULD DISSEMINATE SOME TARGETED INFORMATION TO OFFSET THE PUBLIC MISUNDERSTANDINGS TO WHICH I REFERRED EARLIER.

MR. CHAIRMAN, I'LL BE PLEASED TO ANSWER ANY QUESTIONS YOU OR THE OTHER MEMBERS OF YOUR COMMITTEE MAY HAVE.

Senator PRYOR. Now, I am going to ask a question of Mr. Golato and go to my left and ask all the panelists this question.

Among the hundreds or maybe even thousands of phone calls, letters, or whatever contacts with clients that you have been serving, have you had one person or one individual say to you: This W-4 is the greatest thing that has ever come down the track. I think it is finally time that our country did this. Have you had that positive response?

Mr. GOLATO. No, sir.

Senator PRYOR. Not from one individual, one business?

Mr. GOLATO. Not one.

Senator PRYOR. What about you, Mr. Motley?

Mr. MOTLEY. The chairman has a great sense of humor. No, Mr. Chairman.

Senator PRYOR. And Mr. Wood?

Mr. WOOD. No, sir.

Senator PRYOR. By the way, I would like for the record to show that Mr. Abe Schneider, who is with the National Federation of Independent Business and he is the representative, I guess you would say, for taxation in that field, is here immediately behind the panel this morning. We welcome him. We also welcome Peggy Hudson in the Legislative Affairs Department at NFIB. We are very pleased to have both of you.

Now, I have no real questions further to ask you. I want to thank each of you for coming today. Mr. Wood, you were kind of cut off a while ago in our moment of darkness, and I wonder if there is anything that you would like to add or say?

Mr. WOOD. I am just sorry I blew up the system. [Laughter.]

Senator PRYOR. They would be proud of you back home for doing that, I imagine.

Mr. WOOD. They would.

Senator PRYOR. You have traveled a long way, and we deeply appreciate that. Mr. Motley, do you have any comments? I thought your comment about the strain that this whole issue is causing between the employer and the employee was very perceptive and I don't think that has been brought up. And I think that is something we are going to see growing and not lessening as the months go by.

Mr. MOTLEY. Mr. Chairman, it really follows very much upon Mr. Golato's comments. One of the reasons that people over-withhold, whether they be small business owners or whether they be individual taxpayers, is that they don't want to hassle with having to deal with IRS, if something comes up. They would much rather just pay their taxes, get their refund, and not have to worry about any dealings with the agency at all.

Now, you have gone the other way in saying that if they over-withhold or if they are outside that 90 percent, or that 10 percent area, they are going to be hassled. And I think this is causing a great deal of concern.

Then when you translate that concern to the relationship between an employer and an employee, you are talking about strain.

Senator PRYOR. You are very, very perceptive. If there are no more comments, we again want to thank the panel for coming and those who have attended this hearing.

I think it has been constructive. I must say I am still somewhat frustrated, even though I think the Commissioner of the Intermal Revenue Service, Mr. Gibbs, proceeded in good faith this morning; but I don't know that he has the full backing of the rest of the staff at the Internal Revenue Service, and that concerns me.

So, I don't know exactly what the Congress is going to do after the recess, but we are going to do something. We are not just going to sit here and not do anything; and I hope, whatever we do, we won't make matters worse, but we are going to act. We are going to react, if I might phrase it that way.

And the testimony that you have given this morning is going to be very meaningful and very important as we proceed in trying to find the answer to this dilemma that we are in.

We thank the panel. We thank all of you. The hearing is adjourned.

Mr. GOLATO. Thank you, Mr. Chairman.

[Whereupon, at 11:04 a.m., the hearing was adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

# Tax Division
# of the
# American Institute of Certified Public Accountants

## Written Statement Relating
## to the
## Hearing on Form W-4

Submitted to the
Senate Finance Subcommittee on
Oversight of the IRS

February 12, 1987

We commend the Senate Oversight Subcommittee for responding to the public concern over the perceived complexity of the new W-4 form. At the same time we want to commend the IRS Tax Forms Coordinating Committee for doing an outstanding job of fulfilling their most difficult mandate to design a form which would assume that all employees would pay at least 90 percent of their tax through the withholding mechanism. Any form which would accomplish this goal for all employees with their myriad of different situations would inevitably be complex.

However, it is now apparent that large numbers of taxpayers are not able to handle the complexity necessary to meet the TRA 1986 mandate to achieve a high degree of precision. We agree with your Oversight Subcommittee that some type and degree of simplification is necessary. Our Tax Forms Subcommittee has studied the new W-4 form and offers the following suggestions for accomplishing a reasonable degree of simplification while still achieving, to a significant degree, the goal of more closely matching withholding and the actual tax liability. Our suggestions are discussed below under the following headings:

How can the Employee's Withholding Allowance Certificate be simplified?

(a) Overhaul the current format.
(b) Decrease the scope of the form.
(c) Create two forms to replace the W-4: one for persons who have relatively simple tax estimation situations and one for the more complex situations.

Suggestions for overhauling the current format:

There is about one inch of unused space on Page 3 that could be used to include more information for various line items. Specifically:

(a) Line F of the new form says, "Enter your estimated adjustment to income." The old form spelled out the adjustments, i.e. IRAs, keoghs, alimony, etc. The old version is preferred because a taxpayer can immediately determine whether the item applies to him. The new form requires him to refer to the instructions for even a minimal understanding of the line.

(b) Line G of the new form says, "Enter your estimated itemized deductions." The old form spelled out what deductions were to be included and lumped then-in with the estimated adjustments. Minimizing look-backs to instructions would give people a sense of simplification.

(c) Table A of the new form has 22 entry points on the horizontal axis and 29 entry points on the vertical axis. The large number of entry points is required in order that the withholding be at least 90 percent of the tax liability. The accuracy in estimation would be only slightly diminished if the number of entry points were considerably reduced. For this table to work precisely, the taxpayer and the spouse would have to have a close estimation of their wages. Since this is often not possible, a greater degree of imprecision could be tolerated--especially at high income levels. Another approach to simplification of the table would be to have the contents of the table in whole withholding allowances. This would reduce the appearance of complexity and reduce the numbers in the table to one or two digits.

Suggestions for decreasing the scope of the form:

(a) Decrease the discussion, explanations, and space devoted to use of the withholding system to meet the tax liability of income not subject to withholding. Taxpayers are not required to decrease exemptions or to have additional withholding for outside income. They can make quarterly 1040ES payments. For the W-4 form to work for outside income, the amount must be known at the beginning of the year and tax withheld for the entire year based on the amount. Few people want to pay all year on large amounts of income they may receive in the latter part of the year. Taxpayers will want to wait and pay the tax after they receive the other income. The W-4 Certificate should allow for additional withholding; however, encouragement to use this method and the provision of detailed instructions on how to estimate the tax liability could be eliminated or minimized.

(b) Eliminate most of the calculations for credits. The only significant credits for taxpayers who have credits are the Earned Income Credit and the Child Care Credit. A small table or an arbitrary decision to give one special allowance for anyone who expects to receive over $300 in Earned Income Credit and one special allowance for each taxpayer who expects to have over $1,000 of child care expenses would be less precise than the current method. However, this would harm few people and would be much easier for users to understand.

(c) Eliminate most of the material on second jobs. A flat statement that the taxpayer should file for zero exemptions on the job that pays the least amount of wages and claim his exemptions on the job that has the higher wages would cause little harm. It is less precise than the current system, but few people would be seriously underwithheld by its use.

### Suggestions for the use of two forms to replace the W-4:

The use of two forms for claiming exemptions would make it much easier for many people. The "short form" could be used by individuals who do not elect to have extra allowances for credits, itemized deductions, etc. The form could have a simplified table to consider the effect of a working spouse. This solution has some appeal. The main obstacle is that it would be a distribution nightmare. Employees would not know which form they needed. Detailed instructions would have to be published describing who should use what form. Most employers would probably adopt a practice of giving each employee both forms. Is this simplification? Taxpayers would start one form and then have to shift over to the other one. If both forms were included in the same package, the forms and instructions would increase from four to five pages.

### What is the major problem with the new W-4?

Most taxpayers never used the old W-4 in the manner that it was designed. Most taxpayers claimed exemptions based on the actual number of dependents and then "fine tuned" the number of allowances claimed based on whether they owed additional tax or they received a substantial refund in the prior year. The publicity on requiring new W-4s has caused large groups of people to focus on the form for the first time. To properly prepare a W-4 form from the ground up requires a mini tax return to be prepared. Such an effort is neither desirable nor practical solely for the purpose of estimating withholding tax.

### What should be done now?

Prompt attention to the suggestions noted above would result in useful improvements in the W-4 form. However, before releasing, they should be tested on tax practitioners and the public.

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

**Arthur Young**

3000 K Street, NW
Washington, D.C. 20007

February 12, 1987

William J. Wilkens
Staff Director
Committee on Finance
205 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Wilkens:

We would like to submit the enclosed examples as written testimony to the Finance Subcommittee on Oversight of the Internal Revenue Service with respect to the hearing on Form W-4 held on February 6, 1987. Most of the testimony at the hearing focused on the complexity of the Form W-4 and the underwithholding that results when taxpayers delay in filing the new form. We have found that in many cases the filing of a correct Form W-4 (effective for January 1, 1987) may result in significant underwithholding and exposure to the underpayment penalty.

Example 1 illustrates the case of a married couple with one wage-earner and $6,900 of itemized deductions. Claiming the proper number of withholding allowances (five as computed on Form W-4), will result in the couple owing $115.92 of tax at April 15, 1988. They will not have paid in 90 percent of their Federal tax liability, and unless they had paid an amount equal to last year's tax liability they will be liable for the underpayment penalty under §6654.

Example 2 illustrates the case of a married couple, both of whom work, with $9,100 of itemized deductions and two children. Claiming the proper number of withholding allowances (seven as computed on Form W-4) will result in the couple owing $620.72. Since this is less than 90 percent of their Federal tax liability, unless they had paid an amount equal to last year's tax liability, they will be liable for the underpayment penalty under §6654.

If you have any questions, please do not hesitate to call me at (202) 956-6066 or Tracy Kaye at (202) 956-6492.

Very truly yours,

James B. Conley

Enclosure
JBC/sm

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                 1987 Federal Income Tax Withholding Worksheet

Example #1
                                                      Single or
                                                      Spouse 1       Spouse 2

Number of withholding Allowances                              5              0
Number of Personal Exemptions                                 2
Filing Status (1-single  2-MFJ)                               2

Semimonthly Salary                                       760.00           0.00
Less:  Withholding Allowances                            395.85           0.00
                                                     -----------------------
Net Semimonthly Taxable Salary for W/H                   364.15           0.00
                                                     =======================
Semimonthly Withholding                                   37.92           0.00
                                                     =======================

                                                        1987 Tax Computation
                                                     -----------------------
Annual Salary                                                        18,240.00
Other Income/Loss                                                       100.00
Deductions for AGI                                                        0.00
                                                                  ------------
Adjusted Gross Income                                                18,340.00

Less:  Itemized Deductions
            Taxes                                      1,850.00
            Home Mortgage Interest                     4,000.00
            Other Consumer Interest                      650.00
            Charitable contributions                     400.00
            Miscellaneous Deductions                       0.00
                                                     ------------
            Total Itemized Deductions                  6,900.00
                                                     ============
       Standard Deduction or Total Itemized Deductions                6,900.00
       Personal Exemptions                        2 @ 1,900           3,800.00
                                                                  ------------
Taxable Income                                                        7,640.00
                                                                  ============
Federal Income Tax                                                    1,026.00
Federal Withholding                                                     910.08
                                                                  ------------
Tax Due / (Refund)                                                      115.92
                                                                  ============

90% of Federal Income Tax                                               923.40
Federal Withholding                                                     910.08
                                                                  ------------
Penalty may apply if Positive                                            13.32
                                                                  ============
```

Example 1

Form W-4 (1987) Page 3

## Worksheet To Figure Your Withholding Allowances

**Note:** *If you have a working spouse or more than one job at a time, use only one worksheet to figure your total allowances, combining all income, deductions, and credits on the one worksheet.*

A Enter "1" **for yourself** unless you can be claimed as a dependent on another person's tax return . . . . . . . . A 1

B **Special Allowance.**—Enter "1" if:
- you are single and you have only one job; or
- you are married, you have only one job, and your spouse does not work; or
- wages earned by you on a second job or earned by your spouse (or both) are $2,500 or less.

} . . B 1

C Enter "1" **for your spouse** unless your spouse can be claimed as a dependent on another person's tax return . . . . C 1

D Enter number of **dependents** other than your spouse that you expect to claim on your tax return . . . . . . . . D

E Add lines A through D and enter the total*—Read the following instructions to see if you should stop here . . . . ▶ E 3

You **MUST** complete lines Q through T if you have total income of $950 or more from the following sources:
- A Working Spouse
- More Than One Job
- Nonwage Income

You **SHOULD** complete lines F through P if you expect to have:
- Itemized Deductions
- Tax Credits
- Adjustments to Income
- Age or Blindness Deduction

Otherwise, **STOP** here and enter the number from line E on Form W-4, line 4.

F Enter your estimated **adjustments to income** . . . . . . . . . . . . . . . . F $

G Enter your estimated **itemized deductions** . . . . . . . . G $ 6,900

H Enter: { $3,760 if married filing jointly or qualifying widow(er) / $2,540 if single or head of household / $1,880 if married filing separately } H $ 3,760

I Subtract the amount on line H from line G. Enter the result, but not less than zero . . . . I $ 3,140

J **Age 65 or Over? Blind?** If you do not plan to itemize deductions, enter your additional standard deduction from instructions for line J on page 2 . . . . . . . . . . . . J $

K Enter your estimated **tax credits,** such as child and dependent care credit or earned income credit . . . . . . . . . . . K $

L If line K is zero, skip to line N. Otherwise, enter the number from the table below . . . . . . . . . . . . . . . . L

| **Married Filing Jointly or Qualifying Widow(er)** | | | **Single or Married Filing Separately** | | | **Head of Household** | | |
|---|---|---|---|---|---|---|---|---|
| If your combined estimated wages are— | | Enter on line L | If your estimated wages are— | | Enter on line L | If your estimated wages are— | | Enter on line L |
| At least | But less than | | At least | But less than | | At least | But less than | |
| $0 | $12,500 | 9 | $0 | $6,200 | 9 | $0 | $8,800 | 9 |
| $12,500 | $37,500 | 6.5 | $6,200 | $21,000 | 6.5 | $8,800 | $29,000 | 7 |
| $37,500 | $55,000 | 3.5 | $21,000 | $31,500 | 3.5 | $29,000 | $44,000 | 4 |
| $55,000 | $110,000 | 3 | $31,500 | $70,000 | 3 | $44,000 | $100,000 | 3 |
| $110,000 or over | | 2.5 | $70,000 or over | | 2.5 | $100,000 or over | | 2.5 |

M Multiply the amount on line K by the number on line L and enter the total amount here . . M $

N Add lines F, I, J, and M. Enter the total amount here . . . . . . . . . . . . . . N $ 3,140

O Divide the amount on line N by $1,900. Round to the nearest whole number (see instructions on page 2) . . . . ▶ O 2

P Add lines E and O and enter the total number here . . . . . . . . . . . . . . . . . ▶ P 5

Q **Nonwage Income?**—Enter the estimated amount, if any, of all your nonwage income . . Q $ 100

R **Working Spouse? More Than One Job?**—Too little tax may be withheld if either of these situations applies. See page 4 for line R instructions and tables to figure the amount to enter on this line . . . . . . . . . . . . . . . . . . . . . . . . R $

S Add amounts on lines Q and R and enter the total amount here . . . . . . . . . . S $ 100

T Divide the amount on line S by $1,900. Round to the nearest whole number (see instructions for line O) . . . . . ▶ T

U **Total Withholding Allowances.**—Subtract the number on line T from the number on line P. Enter the result here and on Form W-4, line 4.* If the result is zero or less, enter zero and see instructions for line U on page 2 . . . . ▶ U 5

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* *If you have more than one job or if your spouse works, you may claim all of your allowances on one job or you may claim some on each job, but you may **NOT** claim the same allowances more than once. Your withholding will usually be more accurate if you claim all allowances on the Form W-4 for the job with the largest wages and claim zero on all other Forms W-4.*

## Instructions and Tables for Line R of the Worksheet

1. Enter wages from the HIGHEST paying job (of either spouse, if married) $ ____________
2. . . . . . . . . . . . . . . . . . . . . . . $1,900
3. Enter the number from line P of Worksheet on page 3 . . . x ____
4. Multiply line 2 by line 3. Enter the result here . . . . . . . . . $ ____________
5. Subtract line 4 from line 1. If zero or less, enter zero . . . . . . $ ____________
6. Enter wages from the NEXT HIGHEST paying job . . . . . . $ ____________
7. If married filing jointly, use Table A. Otherwise, use Table B.
8. Read ACROSS the table and find the column for the line 5 amount.
9. Read DOWN the left column and find the row for the line 6 amount.
10. Enter on line R of the Worksheet the amount in the table where the column and row meet.

### Table A—For Married Couples Filing Joint Returns

| Amount From Line 6 Above | | Amount From Line 5 Above | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At Least— | But Less Than— | Under $4,000 | $4,000 And Under $18,000 | $18,000 And Under $20,000 | $20,000 And Under $22,000 | $22,000 And Under $24,000 | $24,000 And Under $26,000 | $26,000 And Under $28,000 | $28,000 And Under $30,000 | $30,000 And Under $32,000 | $32,000 And Under $34,000 | $34,000 And Under $36,000 | $36,000 And Under $38,000 | $38,000 And Under $40,000 | $40,000 And Under $42,000 | $42,000 And Under $44,000 | $44,000 And Under $46,000 | $46,000 And Under $48,000 | $48,000 And Under $50,000 | $50,000 And Under $55,000 | $55,000 And Under $60,000 | $60,000 And Under $70,000 | $70,000 Or Over |
| $0 | $2,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $2,000 | $4,000 | 0 | 300 | 300 | 300 | 300 | 300 | 300 | 500 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 |
| $4,000 | $6,000 | 0 | 800 | 800 | 800 | 800 | 800 | 1,000 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 |
| $6,000 | $8,000 | 0 | 800 | 800 | 800 | 800 | 1,000 | 2,700 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 3,100 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 |
| $8,000 | $10,000 | 0 | 800 | 800 | 800 | 1,000 | 2,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 4,000 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 |
| $10,000 | $12,000 | 0 | 800 | 800 | 1,000 | 2,700 | 4,400 | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 4,900 | 5,400 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 |
| $12,000 | $14,000 | 0 | 800 | 1,000 | 2,700 | 4,400 | 5,600 | 5,600 | 5,600 | 5,600 | 5,600 | 5,600 | 5,900 | 6,400 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 |
| $14,000 | $16,000 | 0 | 800 | 2,700 | 4,400 | 6,200 | 6,500 | 6,500 | 6,500 | 6,500 | 6,500 | 6,800 | 7,300 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,900 |
| $16,000 | $18,000 | 0 | 800 | 4,400 | 6,200 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,700 | 8,200 | 8,700 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,300 |
| $18,000 | $20,000 | 0 | 800 | 6,200 | 7,900 | 8,300 | 8,300 | 8,300 | 8,300 | 8,700 | 9,200 | 9,700 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,600 |
| $20,000 | $22,000 | 0 | 1,000 | 7,900 | 9,300 | 9,300 | 9,300 | 9,300 | 9,600 | 10,100 | 10,600 | 11,100 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 12,000 |
| $22,000 | $24,000 | 0 | 2,700 | 9,600 | 10,200 | 10,200 | 10,200 | 10,500 | 11,000 | 11,500 | 12,000 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 13,200 |
| $24,000 | $26,000 | 0 | 4,400 | 11,100 | 11,100 | 11,100 | 11,400 | 11,900 | 12,400 | 12,900 | 13,400 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 14,400 |
| $26,000 | $28,000 | 0 | 6,200 | 12,100 | 12,100 | 12,400 | 12,900 | 13,400 | 13,900 | 14,400 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 15,800 |
| $28,000 | $30,000 | 0 | 7,900 | 13,000 | 13,300 | 13,800 | 14,300 | 14,800 | 15,300 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 16,800 |
| $30,000 | $32,000 | 0 | 8,600 | 13,700 | 14,200 | 14,700 | 15,200 | 15,700 | 16,200 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,800 | 17,700 |
| $32,000 | $34,000 | 0 | 8,600 | 14,200 | 14,700 | 15,200 | 15,700 | 16,200 | 16,700 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 17,400 | 18,200 |
| $34,000 | $36,000 | 0 | 8,600 | 14,700 | 15,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 18,000 | 18,800 |
| $36,000 | $38,000 | 0 | 8,600 | 15,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,800 | 18,600 | 19,300 |
| $38,000 | $40,000 | 0 | 9,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,700 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,400 | 19,200 | 19,900 |
| $40,000 | $42,000 | 0 | 10,200 | 16,200 | 16,700 | 17,200 | 17,700 | 18,200 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 19,000 | 19,800 | 20,400 |
| $42,000 | $44,000 | 0 | 11,100 | 16,700 | 17,200 | 17,700 | 18,200 | 18,700 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 19,100 | 19,600 | 20,400 | 20,900 |
| $44,000 | $46,000 | 0 | 12,000 | 17,200 | 17,700 | 18,200 | 18,700 | 19,200 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,400 | 19,700 | 20,200 | 21,000 | 21,500 |
| $46,000 | $48,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,300 | 20,800 | 21,500 | 22,000 |
| $48,000 | $50,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,100 | 20,900 | 21,000 | 21,700 | 22,200 |
| $50,000 | $55,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,100 | 20,300 | 20,500 | 20,800 | 21,300 | 22,100 | 22,500 |
| $55,000 | $60,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,800 | 20,000 | 20,200 | 20,400 | 20,600 | 20,800 | 21,000 | 21,300 | 21,800 | 22,600 | 23,000 |
| $60,000 | $70,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,900 | 20,100 | 20,300 | 20,500 | 20,700 | 20,900 | 21,100 | 21,300 | 21,500 | 21,700 | 22,100 | 22,600 | 23,300 | 23,600 |
| $70,000 | | 0 | 12,900 | 18,300 | 19,100 | 19,800 | 20,600 | 21,000 | 21,200 | 21,400 | 21,600 | 21,800 | 22,000 | 22,200 | 22,400 | 22,600 | 22,800 | 23,000 | 23,200 | 23,600 | 24,100 | 24,800 | 25,000 |

### Table B—For All Others

| Amount From Line 6 Above | | Amount From Line 5 Above | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At Least— | But Less Than— | Under $10,000 | $10,000 And Under $12,000 | $12,000 And Under $14,000 | $14,000 And Under $16,000 | $16,000 And Under $18,000 | $18,000 And Under $20,000 | $20,000 And Under $22,000 | $22,000 And Under $24,000 | $24,000 And Under $30,000 | $30,000 And Under $40,000 | $40,000 And Under $50,000 | $50,000 Or Over |
| $0 | $4,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $4,000 | $6,000 | 0 | 0 | 0 | 0 | 1,000 | 1,000 | 1,000 | 1,000 | 1,400 | 1,400 | 1,400 | 1,600 |
| $6,000 | $8,000 | 0 | 0 | 0 | 1,500 | 1,900 | 1,900 | 1,900 | 2,100 | 2,600 | 2,600 | 2,600 | 2,800 |
| $8,000 | $10,000 | 0 | 0 | 1,500 | 2,900 | 2,900 | 2,900 | 3,000 | 3,500 | 3,700 | 3,700 | 3,700 | 4,000 |
| $10,000 | $12,000 | 0 | 1,500 | 3,300 | 3,800 | 3,800 | 3,900 | 4,400 | 4,900 | 4,900 | 4,900 | 4,900 | 5,300 |
| $12,000 | $14,000 | 0 | 3,300 | 4,700 | 4,700 | 4,900 | 5,400 | 5,900 | 6,000 | 6,000 | 6,000 | 6,200 | 6,500 |
| $14,000 | $16,000 | 0 | 5,000 | 5,700 | 5,800 | 6,300 | 6,800 | 7,200 | 7,200 | 7,200 | 7,200 | 7,500 | 7,700 |
| $16,000 | $18,000 | 1,900 | 6,600 | 6,700 | 7,200 | 7,700 | 8,200 | 8,300 | 8,300 | 8,300 | 8,300 | 8,800 | 8,900 |
| $18,000 | $20,000 | 1,900 | 6,900 | 7,400 | 7,900 | 8,400 | 8,900 | 8,900 | 8,900 | 8,900 | 8,900 | 9,600 | 9,600 |
| $20,000 | | 2,100 | 8,400 | 8,900 | 9,400 | 9,900 | 10,100 | 10,100 | 10,100 | 10,100 | 10,400 | 11,200 | 11,200 |

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## 1987 Federal Income Tax Withholding Worksheet

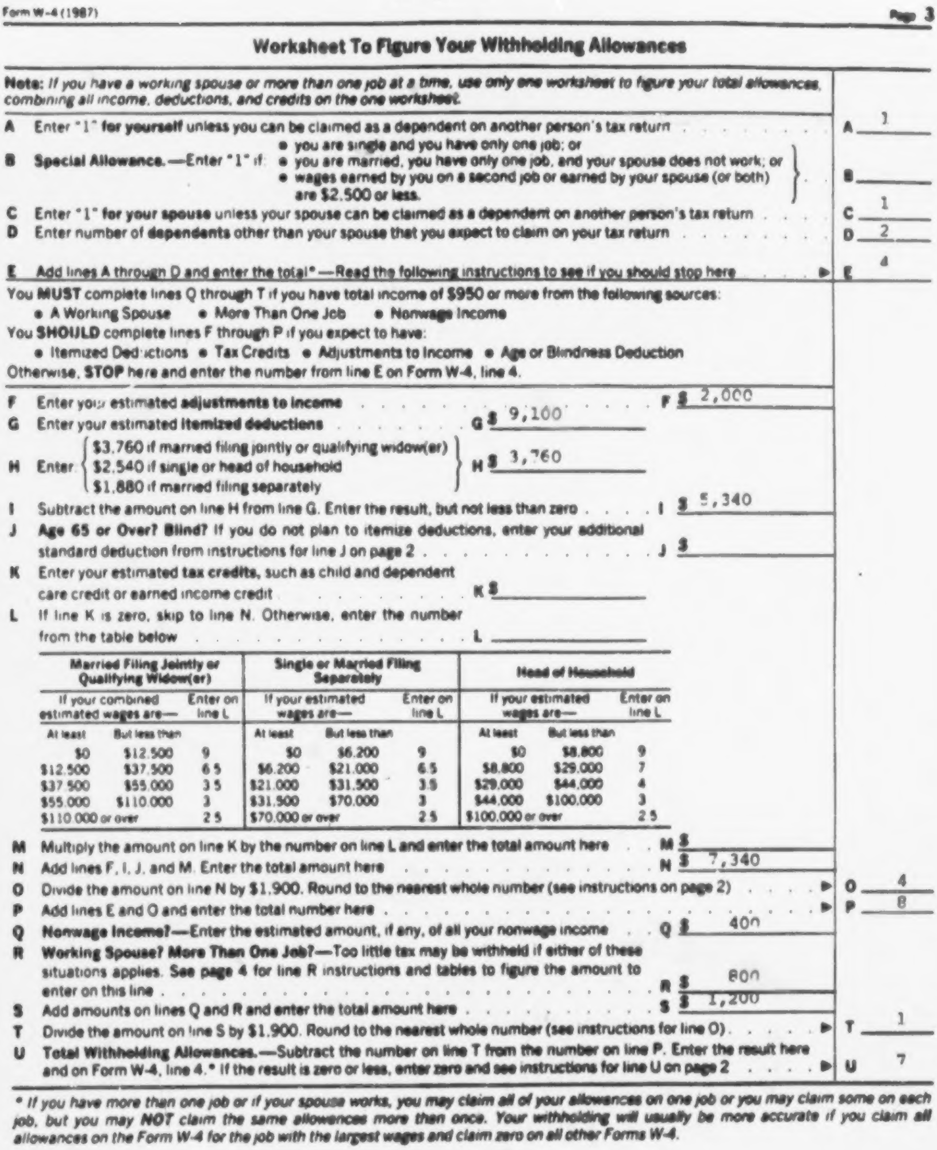
Example #2

| | Single or Spouse 1 | Spouse 2 |
|---|---|---|
| Number of withholding Allowances | 7 | 0 |
| Number of Personal Exemptions | 4 | |
| Filing Status (1-single 2-MFJ) | 2 | |
| Semimonthly Salary | 1,350.00 | 800.00 |
| Less: Withholding Allowances | 554.19 | 0.00 |
| Net Semimonthly Taxable Salary for W/H | 795.81 | 800.00 |
| Semimonthly Withholding | 102.67 | 103.30 |

1987 Tax Computation

| | | |
|---|---|---|
| Annual Salary | | 51,600.00 |
| Other Income/Loss | | 400.00 |
| Deductions for AGI | | 2,000.00 |
| Adjusted Gross Income | | 50,000.00 |
| Less: Itemized Deductions | | |
| Taxes | 900.00 | |
| Home Mortgage Interest | 8,000.00 | |
| Other Consumer Interest | 0.00 | |
| Charitable contributions | 200.00 | |
| Miscellaneous Deductions | 0.00 | |
| Total Itemized Deductions | 9,100.00 | |
| Standard Deduction or Total Itemized Deductions | | 9,100.00 |
| Personal Exemptions | 4 @ 1,900 | 7,600.00 |
| Taxable Income | | 33,300.00 |
| Federal Income Tax | | 5,564.00 |
| Federal Withholding | | 4,943.28 |
| Tax Due / (Refund) | | 620.72 |
| 90% of Federal Income Tax | | 5,007.60 |
| Federal Withholding | | 4,943.28 |
| Penalty may apply if Positive | | 64.32 |

## Example 2



Form W-4 (1987) **Page 3**

### Worksheet To Figure Your Withholding Allowances

**Note:** *If you have a working spouse or more than one job at a time, use only one worksheet to figure your total allowances, combining all income, deductions, and credits on the one worksheet.*

**A** Enter "1" **for yourself** unless you can be claimed as a dependent on another person's tax return . . . . . . . . **A** 1

**B** **Special Allowance.**—Enter "1" if:
- you are single and you have only one job; or
- you are married, you have only one job, and your spouse does not work; or
- wages earned by you on a second job or earned by your spouse (or both) are $2,500 or less.

. . . **B** ______

**C** Enter "1" **for your spouse** unless your spouse can be claimed as a dependent on another person's tax return . . . . **C** 1

**D** Enter number of **dependents** other than your spouse that you expect to claim on your tax return . . . . . . . . **D** 2

**E** Add lines A through D and enter the total*—Read the following instructions to see if you should stop here . . . . ▶ **E** 4

You **MUST** complete lines Q through T if you have total income of $950 or more from the following sources:
- A Working Spouse
- More Than One Job
- Nonwage Income

You **SHOULD** complete lines F through P if you expect to have:
- Itemized Deductions
- Tax Credits
- Adjustments to Income
- Age or Blindness Deduction

Otherwise, **STOP** here and enter the number from line E on Form W-4, line 4.

**F** Enter your estimated **adjustments to income** . . . . . . . . . . . . **F** $ 2,000

**G** Enter your estimated **itemized deductions** . . . . . . . . **G** $ 9,100

**H** Enter:
- $3,760 if married filing jointly or qualifying widow(er)
- $2,540 if single or head of household
- $1,880 if married filing separately

**H** $ 3,760

**I** Subtract the amount on line H from line G. Enter the result, but not less than zero . . . . . **I** $ 5,340

**J** **Age 65 or Over? Blind?** If you do not plan to itemize deductions, enter your additional standard deduction from instructions for line J on page 2 . . . . . . . . . . . . . . . **J** $

**K** Enter your estimated **tax credits,** such as child and dependent care credit or earned income credit . . . . . . . . . **K** $ ______

**L** If line K is zero, skip to line N. Otherwise, enter the number from the table below . . . . . . . . . . . . . . . . **L** ______

| **Married Filing Jointly or Qualifying Widow(er)** | | | **Single or Married Filing Separately** | | | **Head of Household** | | |
|---|---|---|---|---|---|---|---|---|
| If your combined estimated wages are— | | Enter on line L | If your estimated wages are— | | Enter on line L | If your estimated wages are— | | Enter on line L |
| At least | But less than | | At least | But less than | | At least | But less than | |
| $0 | $12,500 | 9 | $0 | $6,200 | 9 | $0 | $8,800 | 9 |
| $12,500 | $37,500 | 6.5 | $6,200 | $21,000 | 6.5 | $8,800 | $29,000 | 7 |
| $37,500 | $55,000 | 3.5 | $21,000 | $31,500 | 3.5 | $29,000 | $44,000 | 4 |
| $55,000 | $110,000 | 3 | $31,500 | $70,000 | 3 | $44,000 | $100,000 | 3 |
| $110,000 or over | | 2.5 | $70,000 or over | | 2.5 | $100,000 or over | | 2.5 |

**M** Multiply the amount on line K by the number on line L and enter the total amount here . . **M** $

**N** Add lines F, I, J, and M. Enter the total amount here . . . . . . . . . . . **N** $ 7,340

**O** Divide the amount on line N by $1,900. Round to the nearest whole number (see instructions on page 2) . . . . ▶ **O** 4

**P** Add lines E and O and enter the total number here . . . . . . . . . . . . . . . . ▶ **P** 8

**Q** **Nonwage Income?**—Enter the estimated amount, if any, of all your nonwage income . . **Q** $ 400

**R** **Working Spouse? More Than One Job?**—Too little tax may be withheld if either of these situations applies. **See page 4** for line R instructions and tables to figure the amount to enter on this line . . . . . . . . . . . . . . . . . . . . . **R** $ 800

**S** Add amounts on lines Q and R and enter the total amount here . . . . . . . . . **S** $ 1,200

**T** Divide the amount on line S by $1,900. Round to the nearest whole number (see instructions for line O) . . . . . ▶ **T** 1

**U** **Total Withholding Allowances.**—Subtract the number on line T from the number on line P. Enter the result here and on Form W-4, line 4.* If the result is zero or less, enter zero and see instructions for line U on page 2 . . . . ▶ **U** 7

* *If you have more than one job or if your spouse works, you may claim all of your allowances on one job or you may claim some on each job, but you may* ***NOT*** *claim the same allowances more than once. Your withholding will usually be more accurate if you claim all allowances on the Form W-4 for the job with the largest wages and claim zero on all other Forms W-4.*

## Instructions and Tables for Line R of the Worksheet

1. Enter wages from the HIGHEST paying job (of either spouse, if married) $ 32,400
2. . . . . . . . . . . . . . . . . . . . . . . $1,900
3. Enter the number from line P of Worksheet on page 3 . . . . x 8
4. Multiply line 2 by line 3. Enter the result here . . . . . . . . $ 15,200
5. Subtract line 4 from line 1. If zero or less, enter zero . . . . . . . $ 17,200
6. Enter wages from the NEXT HIGHEST paying job . . . . . . . $ 19,200
7. If married filing jointly, use Table A. Otherwise, use Table B.
8. Read ACROSS the table and find the column for the line 5 amount.
9. Read DOWN the left column and find the row for the line 6 amount.
10. Enter on line R of the Worksheet the amount in the table where the column and row meet.

### Table A—For Married Couples Filing Joint Returns

| Amount From Line 6 Above | | Amount From Line 5 Above | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At Least— | But Less Than— | Under $4,000 | $4,000 And Under $18,000 | $18,000 And Under $20,000 | $20,000 And Under $22,000 | $22,000 And Under $24,000 | $24,000 And Under $26,000 | $26,000 And Under $28,000 | $28,000 And Under $30,000 | $30,000 And Under $32,000 | $32,000 And Under $34,000 | $34,000 And Under $36,000 | $36,000 And Under $38,000 | $38,000 And Under $40,000 | $40,000 And Under $42,000 | $42,000 And Under $44,000 | $44,000 And Under $46,000 | $46,000 And Under $48,000 | $48,000 And Under $50,000 | $50,000 And Under $55,000 | $55,000 And Under $60,000 | $60,000 And Under $70,000 | $70,000 Or Over |
| $0 | $2,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $2,000 | $4,000 | 0 | 300 | 300 | 300 | 300 | 300 | 300 | 500 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 | 700 |
| $4,000 | $6,000 | 0 | 800 | 800 | 800 | 800 | 800 | 1,000 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 | 2,100 |
| $6,000 | $8,000 | 0 | 800 | 800 | 800 | 800 | 1,000 | 2,700 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 3,100 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 |
| $8,000 | $10,000 | 0 | 800 | 800 | 800 | 1,000 | 2,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 | 4,000 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 |
| $10,000 | $12,000 | 0 | 800 | 800 | 1,000 | 2,700 | 4,400 | 4,800 | 4,800 | 4,800 | 4,800 | 4,800 | 4,800 | 4,900 | 5,400 | 5,900 | 5,900 | 5,900 | 5,900 | 5,900 | 5,900 | 5,900 | 5,900 |
| $12,000 | $14,000 | 0 | 800 | 1,000 | 2,700 | 4,400 | 5,800 | 5,800 | 5,800 | 5,800 | 5,800 | 5,800 | 5,900 | 6,400 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 |
| $14,000 | $16,000 | 0 | 800 | 2,700 | 4,400 | 6,700 | 6,500 | 6,500 | 6,500 | 6,500 | 6,900 | 6,800 | 7,300 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 7,900 |
| $16,000 | $18,000 | 0 | 800 | 4,400 | 6,200 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,700 | 8,200 | 8,700 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 | 9,300 |
| $18,000 | $20,000 | 0 | 800 | 6,200 | 7,900 | 8,300 | 8,300 | 8,300 | 8,300 | 8,700 | 9,200 | 9,700 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,100 | 10,800 |
| $20,000 | $22,000 | 0 | 1,000 | 7,900 | 9,300 | 9,300 | 9,300 | 9,300 | 9,800 | 10,100 | 10,600 | 11,100 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 12,000 |
| $22,000 | $24,000 | 0 | 2,700 | 9,000 | 10,200 | 10,200 | 10,200 | 10,500 | 11,000 | 11,500 | 12,000 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 12,400 | 13,200 |
| $24,000 | $26,000 | 0 | 4,400 | 11,100 | 11,100 | 11,100 | 11,400 | 11,900 | 12,400 | 12,900 | 13,400 | 13,500 | 13,500 | 13,500 | 13,900 | 13,900 | 13,900 | 13,900 | 13,900 | 13,900 | 13,900 | 13,900 | 14,400 |
| $26,000 | $28,000 | 0 | 6,200 | 12,100 | 12,100 | 12,400 | 12,900 | 13,400 | 13,900 | 14,400 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 | 15,600 |
| $28,000 | $30,000 | 0 | 7,900 | 13,000 | 13,300 | 13,800 | 14,300 | 14,800 | 15,300 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 15,800 | 16,800 |
| $30,000 | $32,000 | 0 | 8,000 | 13,700 | 14,200 | 14,700 | 15,200 | 15,700 | 16,200 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 | 16,900 | 16,500 | 16,900 | 16,900 | 16,900 | 16,800 | 17,700 |
| $32,000 | $34,000 | 0 | 8,000 | 14,200 | 14,700 | 15,200 | 15,700 | 16,200 | 16,700 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 16,900 | 17,400 | 18,200 |
| $34,000 | $36,000 | 0 | 8,000 | 14,700 | 15,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 17,300 | 18,000 | 18,800 |
| $36,000 | $38,000 | 0 | 8,000 | 15,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,700 | 17,800 | 18,600 | 19,300 |
| $38,000 | $40,000 | 0 | 9,200 | 15,700 | 16,200 | 16,700 | 17,200 | 17,700 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,100 | 18,400 | 19,200 | 19,900 |
| $40,000 | $42,000 | 0 | 10,200 | 16,200 | 16,700 | 17,200 | 17,700 | 18,200 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,500 | 18,900 | 18,900 | 18,900 | 18,900 | 19,000 | 19,800 | 20,400 |
| $42,000 | $44,000 | 0 | 11,100 | 16,700 | 17,200 | 17,700 | 18,200 | 18,700 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 18,900 | 19,100 | 19,600 | 20,400 | 20,900 |
| $44,000 | $46,000 | 0 | 12,000 | 17,200 | 17,700 | 18,200 | 18,700 | 19,200 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,300 | 19,400 | 19,700 | 20,200 | 21,000 | 21,500 |
| $46,000 | $48,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,300 | 20,800 | [illegible] | 22,000 |
| $48,000 | $50,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,100 | 20,500 | 21,000 | 21,700 | 22,200 |
| $50,000 | $55,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,900 | 20,100 | 20,300 | 20,500 | 20,800 | 21,300 | 22,100 | 22,900 |
| $55,000 | $60,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,700 | 19,700 | 19,700 | 19,800 | 20,000 | 20,200 | 20,400 | 20,600 | 20,800 | 21,000 | 21,300 | 21,800 | 22,600 | 23,000 |
| $60,000 | $70,000 | 0 | 12,900 | 17,700 | 18,200 | 18,700 | 19,200 | 19,700 | 19,700 | 19,900 | 20,100 | 20,300 | 20,500 | 20,700 | 20,900 | 21,100 | 21,300 | 21,500 | 21,700 | 22,100 | 22,600 | 23,300 | 23,600 |
| $70,000 | | 0 | 12,900 | 18,300 | 19,100 | 19,800 | 20,600 | 21,000 | 21,200 | 21,400 | 21,600 | 21,800 | 22,000 | 22,200 | 22,400 | 22,600 | 22,800 | 23,000 | 23,200 | 23,600 | 24,100 | 24,800 | 25,000 |

### Table B—For All Others

| Amount From Line 6 Above | | Amount From Line 5 Above | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At Least— | But Less Than— | Under $10,000 | $10,000 And Under $12,000 | $12,000 And Under $14,000 | $14,000 And Under $16,000 | $16,000 And Under $18,000 | $18,000 And Under $20,000 | $20,000 And Under $22,000 | $22,000 And Under $24,000 | $24,000 And Under $30,000 | $30,000 And Under $40,000 | $40,000 And Under $50,000 | $50,000 Or Over |
| $0 | $4,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $4,000 | $6,000 | 0 | 0 | 0 | 0 | 1,000 | 1,000 | 1,000 | 1,000 | 1,400 | 1,400 | 1,400 | 1,800 |
| $6,000 | $8,000 | 0 | 0 | 0 | 1,500 | 1,900 | 1,900 | 1,900 | 2,100 | 2,800 | 2,800 | 2,800 | 2,800 |
| $8,000 | $10,000 | 0 | 0 | 1,300 | 2,900 | 2,900 | 2,900 | 3,000 | 3,500 | 3,700 | 3,700 | 3,700 | 4,000 |
| $10,000 | $12,000 | 0 | 1,300 | 3,300 | 3,800 | 3,800 | 3,900 | 4,400 | 4,900 | 4,900 | 4,900 | 4,900 | 5,300 |
| $12,000 | $14,000 | 0 | 3,300 | 4,700 | 4,700 | 4,900 | 5,400 | 5,900 | 6,000 | 6,000 | 6,000 | 6,200 | 6,900 |
| $14,000 | $16,000 | 0 | 5,000 | 5,700 | 5,800 | 6,300 | 6,800 | 7,200 | 7,200 | 7,200 | 7,200 | 7,900 | 7,700 |
| $16,000 | $18,000 | 1,500 | 6,000 | 6,700 | 7,200 | 7,700 | 8,200 | 8,300 | 8,300 | 8,300 | 8,300 | 8,800 | 8,900 |
| $18,000 | $20,000 | 1,900 | 6,900 | 7,400 | 7,900 | 8,400 | 8,900 | 8,900 | 8,900 | 8,900 | 8,900 | 9,600 | 9,800 |
| $20,000 | | 2,100 | 8,400 | 8,900 | 9,400 | 9,900 | 10,100 | 10,100 | 10,100 | 10,100 | 10,400 | 11,200 | 11,200 |

☆U.S. GOVERNMENT PRINTING OFFICE: [illegible]

B

Jan.3,1987.

William J. Wilkins
Room S. D. 205
Dirksen Bldg.
Washington, D.C.
20510

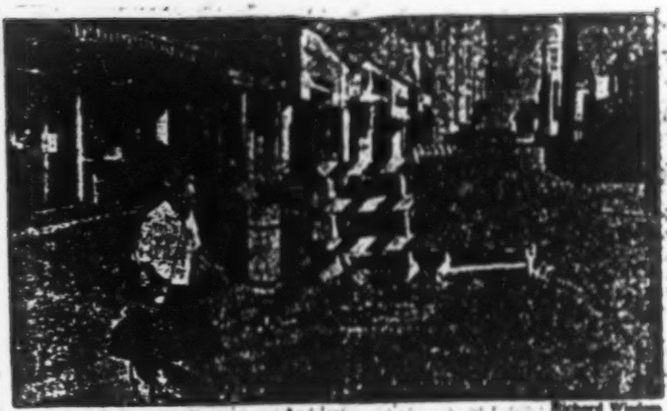
Dear Sir;

Enclosed is a copy of a published "letter to the editor" that I wrote in regards to the new W-4 form. Since I wrote that letter,many things have happened. More and more of our taxpayers money has been spent ( wasted ) on trying to educate the public to be able to fill this monstrosity out! There have been seminars, video tapes,people on T.V. and radio, trying to explain this four page confusing W-4!!?? Why not use some of that money to try to put together a simple no mumble-jumble form like we had before. My own Company ( Bless their Corporate Heart ) wants nothing to do with helping employees to fill out this mind-boggeling form. Thier answer is "don't bother us,call your tax preparer." For some of us who try to prepare our own taxes, that means a special and expensive trip to see a C.P.A. RIDICULOUS!!! Thank you for your time and efforts.

Sincerely,
A. Bertlow

A. Bertlow

14830 Clayton Road
San Jose, Ca 95127
(408) 251-4189



Richard Wisdom

Construction discourages downtown walk-in traffic

## So what if arena's a white elephant?

The recent spate of Mercury News articles about a San Jose sports arena has convinced me that such a facility is a done deal. There are a few unresolved issues such as location and funding, but not to worry.

I suppose it's reasonable that a city that can drop $60 million in bond trading does truly belong in the big leagues of municipal spending. Still in all, I wonder about the propriety of erecting a $60 million or $70 million white elephant just because Mayor Tom McEnery wants to be remembered. You can bet the farm that the eventual cost will be two to three times the estimate.)

But what the hey, we'll pass a bond issue and let the children pay it off.

— Walter J. Schwegman
San Jose

## New W-4 form stupidest yet

The new W-4 form is the newest, craziest, stupidest form the Internal Revenue Service has produced yet. It is four pages of confusing, complicated garbage. If we accept this outrage without complaint, watch out for the next monstrosity. The new W-4 form makes work easy for the IRS but impossible for the people who have the responsibility of filling it out.

We don't need this new improved (?) form. I thought the idea of tax reform was to keep things simple. Some of us can't afford to hire a CPA to do our paper work.

This form is not only confusing, it is very, very costly to the taxpayers. The IRS knows the form is confusing; the service has prepared books, videos, and seminars on the subject.

I rest my case.

— A. Bertlow
San Jose

## Raise fuel taxes to $5 a gallon

Bay Area transportation is a shambles. Why not acquire the partially used railroads and tie them into BART? Rails exist or could be extended to Santa Cruz, Stockton, Salinas. Buses to neighborhood stations can handle local passengers. Finance free fares by raising taxes on gasoline and diesel fuel. Let the tax rise to $1 or $5 a gallon. I see no alternative.

— Joseph M. McDonough
San Jose

## A preposterous foreign policy

If one were asked to draw up a scenario of a preposterous foreign affairs policy, he could not come close to matching the present Iran-Contra fiasco.

— Jay Huck
Los Gatos

B

STATEMENT ON NEW W-4 FORM

As a hard working United States tax-payer, I request that the members of this committee launch an investigation into the way the Internal Revenue Service arrived at the new W-4 form, now being pushed onto the American public. They apparently want us all to be fortune tellers.

This W-4 Form they have developed is totally unappropriate. I have several sources of outside income and never know till years end what the amounts will be. I have talked to an accountant and he said there is no way it can be filled out.

The Internal Revenue Service is trying to quiet this great public outrage by holding seminars on filling out **their** little form. Well that won't work.

The only solution to this whole fiasco they got us all into is to waste some more tax dollars and come up with a new form that makes some sense.

Perhaps the Internal Revenue Service can hire some better qualified people from one of the pre-schools in the Washington area.

It is suggested that you people in Washington take a look at what's happening back home over this W-4 thing. The entire country is in an uproar over this and we want some action, not a bunch of seminars.

We are in favor of tax reform, but with a little reason to it.

Thank you;

Harry N. Blount

Harry N. Blount

BOSTON COLLEGE
CHESTNUT HILL, MASSACHUSETTS 02167

PAYROLL DEPARTMENT
(617) 552-3180

February 6, 1987

William J. Wilkins
Staff Director and Chief Counsel
United States Senate Committee on Finance
Room SD-205
Dirksen Senate Office Building
Washington, DC 20510

Dear Sir:

This letter concerns your committee's hearing on the new W-4 form. I am the Payroll Manager at Boston College, where we have a total of 5,000 employees, including many student employees.

My initial comment is that the problem lies, not with the form itself, but with the complicated and confusing instructions on filling it out. Students in particular are having difficulty with the form. For example, on Page 1, Step 2, there is a section headed "Important Change in the Law," which deals with exempt status. Previously, students were allowed to earn almost $3,500 annually before owing federal tax, and many of them claimed to be "exempt" on the W-4. The new form states that they may not be exempt if they can be claimed as a dependent by someone else, but no guideline is given on what the break point would be. Then there is mention of a $500 limit for nonwage and wage income combined. The impression is given that students will be taxed if they earn more than $500, yet the tax tables indicate that they will be taxed on even lesser amounts. (As an aside, I would add that it seems unfair to impose a heavier tax burden on students, who are already struggling to meet high college expenses.)

In short, there should be more information pertaining to the status of students, both undergraduate and graduate, since in many cases their situations will be different from previous years. Line 6c of the form itself asks, "If you entered "EXEMPT" are you a full-time student?" -- yet nowhere in the instructions are students mentioned. What, then, is the reason for that question, students ask themselves.

February 6, 1987
Page 2

Many non-student employees find the instructions so complicated that they are simply claiming 1 or 0 allowances, "just to be safe." For many employees, however, that will result in far too high a tax withholding and will require a refund in 1988. In some cases employees are intimidated by the "Penalty" clause (Page 2, Step 3 of the instructions) which states that they would be fined $500 if too little tax is withheld, but doesn't specify what threshold could trigger a fine. Are they to be penalized if they are underwithheld by $10?...$50?...$500?...? When the instructions are unclear and overly complicated, it is the taxpayer who suffers.

I hope these comments add support to your efforts to devise a simpler form.

Sincerely,

Ruth J. Chobit

Ruth J. Chobit
Payroll Manager

P.S. At the bottom of Page 2, reference is made to the "Paperwork Reduction Act." Is this intended to convince us that the IRS has a sense of humor?

RJC/dgc

DEVIN B.DAVIS
4009 CROWDALL DR.
SACRAMENTO, CA 95825

D

February 2, 1987

William J. Wilkins
Room S.D. 205 Dirksen Bldg.
Washington, D. C. 20510

RE: W-4 forms

Dear Committee:

We are **NOT** psychic!

The W-4 form is an invasion of privacy, a bureaucratic nightmare and impossible for anyone to fill out honestly. Is that the purpose, so you can penalize each person $500.00?

People have **NO** idea how much they will sell, how many jobs they bid will profit, how much medical attention or hospital time they will need, whether or not they will receive bonuses or other compensations.

It is as ridiculous as the Senate and Congress who passed this **humongous tax increase**. It is time for another Boston Tea Party!

Get rid of the W-4 form.

Disgusted, Dismayed

Mrs. D. B. Davis

E

MEMO

On December 3rd, I announced a campaign against the "new, improved, and simplified" IRS Form W-4. This is the form that most citizens fill out when starting a job, and determines the amount of money their employers withhold from their weekly pay.

The old form was one sheet, instructions and form included. The NEW form is four pages long, with a complicated table, indecipherable instructions, a worksheet, and the form to be filled in.

It is a MONSTER! (I've tried twice to get through it, and can't) The IRS admits it is a mess: The Commissioner, on November 19th, said it is "complex...confusing": the IRS has THREE publications to "help" get through it: they are releasing Videotapes to help get through it (line-by-line): they are scheduling Seminars throughout the country to explain it: and - NOTICE - they are allowing 10 months to get them in!

If an employee fails to submit a NEW form, the employer fills one out for him -- listing the employee as Single, with one allowance or Married, with two allowances. Whether the employer or the employee fills it out, it had BETTER be pretty close to accurate...if the tax withheld isn't enough (90% of total)...there could be a $500 FINE!

Information to be used in your ESTIMATE includes: Primary income, income from a second job, spouse's income, investment income, business expenses, medical expenses, moving expenses, theft...YOU'LL HAVE TO BE A 'PSYCHIC' TO GUESS WHAT 1987 WILL BE LIKE...!!!

And, since the laws change again in 1988, you'll have to do it all over again. And, if YOUR situation changes, you may have to do it all over again, again, again.

It is a monster, but it is still a baby-monster. I am urging everyone to KILL the monster before the forms arrive, or are mailed back, and before it is a full-grown MONSTER, and impossible to kill!

Write to: The President...Both your US Senators...Your Representative in Congress...Editors of Newspapers...Columnists...and the following people:

Senators Robert Packwood and Pete Domenici:
Representatives Pete Stark, George Miller, Barbara Boxer, and Jim Wright.

And, send a special letter to (the only Senator who has spoken out about the W-4 Monster) Senator Robert Kasten, Madison, Wisconsin.

Fight it NOW, or it will be too late!!!

SLAM THE DOOR ON THE W-4...!!!!!!!!!!!

Jim Eason
KGO Radio
San Francisco
CA - 94111

JOHN S. FULTON
1167 POLK AVENUE
SUNNYVALE CA. 94086

29 January 1987

Mr. William J. Wilkins
Room SD205
Dirksen Building
Washington, D.C. 20510

Dear Sir:

The "improved" W-4 form is an abomination!

I am writing this to you to ask for proceedings to stop this kind of foolishness in the name of "Tax simplification and tax reduction".

My key observations and complaints are:

1. The increasing complexity of tax preparation is unnecessary, bureaucratic, and unacceptable.

2. We were adequately taxed by the former W-4 procedure and are often unable to provide even approximations of our 1987 projected income, as required by the new W-4 form. How can I possibly guess whether my wife will lose her job...or get a better, higher paying job?

3. The implied penalties for mis-estimating one's future income forces a defacto tax increase through over-with holding. This is a tax reduction? Revenue by fear?

4. How can a government "of the people" give us such gobbledegook that only lawyers and tax preparation businesses can comprehend?

5. I am sure that we reqular-salaried wage earners can provide sufficient revenue thoughout the year to run our government on a BALANCED BUDGET basis. Taxes on variable incomes could be collected after the end of the tax year for those with income legally outside the with-holding requirements of regular salaries.

6. Please recognize the overwhelming mandate given our current administration to reduce the costly mumbo jumbo that governs our current tax preparation fiasco.

7. It is ridiculous to have such a large percentage of tax payers forced to use tax preparation services to comprehend the yearly updated incomprehensible tax laws and forms.

8. Don't tell us that "your govenrment is doing everything possible to give us tax simplification".

9. Let's run the congress though one of the IRS 3-hour training courses on the new W-4 form. Perhaps they can recognize what the public is complaining about.

This letter is respectfully submitted as my personal feelings about some of the foolish planning rampant throughout our government.

Sincerely,

John S. Fulton

G

**General Mills, Inc.**
**General Offices**

Post Office Box 1113
Minneapolis, Minnesota 55440

February 3, 1987

Mr. William J. Wilkins
Staff Director and Chief Counsel
United States Senate Committee on Finance
Room SD-205
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Wilkins:

I enclose a copy of a letter I recently sent to the St. Paul District IRS Office concerning what we believe to be an outright error in the 1987 Form W-4.

I bring this to your attention as part of the February 6 hearing on Form W-4, and the February 12 deadline for submitting written comments.

Very truly yours,

R D Mueller

R. D. Mueller
Tax Manager

RDM:clb
Encl.

General Offices and Betty Crocker Kitchens at 9200 Wayzata Boulevard

**General Mills, Inc.**
**General Offices**
Post Office Box 1113
Minneapolis, Minnesota 55440

January 28, 1987

Ms. Myrna Bergstrom
IRS Outreach - Stop 26
316 North Robert Street
St. Paul, Minnesota 55101

Dear Ms. Bergstrom:

This letter is a follow-up to the brief conversation you and I had at a recent W-4 training session at Ft. Snelling, and our subsequent telephone conversation. My comments then, and now, deal solely with the instructions on the 1987 Form W-4 for handling moving expenses as an itemized deduction.

At the outset let me again commend you on the excellent job you did at the training session. At a Tax Executive Institute dinner meeting shortly after the Ft. Snelling session, District Director C. Dudley Switzer and several members of his staff were present. I mentioned to Mr. Switzer that I had attended one of your W-4 training sessions and had complemented you on the excellent job you had done. He was pleased to hear that comment.

As I have mentioned to you, we believe the instructions on the new W-4 form for 1987 are incorrect as pertains to moving expenses. On page 2, in instructions for Line G, "Itemized Deductions", this statement appears:

> "Moving Expenses (If reimbursed include only if your employer withheld tax on them)."

We believe these instructions are incorrect, and are exactly opposite to what they should be. If implemented as written, an employee could unwittingly overstate expected itemized deductions, and as a result, could be under-withheld for the year.

A quick review of applicable law and regulations would be helpful. Under Sec. 82 (unchanged by the Tax Reform Act of 1986, "TRA"), an employer is required to include in gross income of an employee all amounts paid to or on behalf of the employee in connection with moving from one location to another. Under Sec. 3401(a)(15) (also unchanged by TRA) the employer excludes from wages for withholding purposes those reimbursements for moving expenses which at the time of payment the employer reasonably believes the employee will be able to deduct under Sec. 217 (also unchanged by TRA).

Thus, the employer will withhold tax from those reimbursements for moving expenses which the employee cannot deduct, and the employer will not withhold tax from those reimbursements for moving expenses which the employee can deduct. Instructions on the new W-4 lead the employee to believe that the employee can deduct those moving expenses from which the employer has withheld tax - exactly the opposite result.

The TRA does make changes in the manner in which an employee handles deductible moving expenses. Under TRA, qualifying moving expenses are included in itemized deductions. Under prior law, such expenses were deductions to derive Adjusted Gross Income (AGI). As a result, under the TRA rules, whether or not an employee can deduct moving expenses is dependent upon many factors unrelated to whether the expenses qualify under Sec. 217. The consequences of that are that it will be much more difficult for an employer to reasonably determine whether or not an employee will deduct moving expenses, thus making it more difficult for an employer to determine whether or not to withhold taxes.

Nonetheless, even though the employer's task of determining whether or not to withhold is more complex under TRA, the fact still remains that the W-4 instructions as presently written lead to an incorrect answer.

At the risk of suggesting alternative language which might be equally confusing, the following is one option:

> "Moving Expenses (If reimbursed, include only if your employer has not withheld tax on them)."

Because of the added complexities under TRA, this may or may not lead an employee to the correct answer, but it should be a more correct answer than that which the existing instructions produce.

We respectfully request your review of this matter and if possible, we would appreciate an opportunity to discuss it with you or your associates. Thank you for your consideration.

Sincerely,

RD Mueller

R. D. Mueller
Tax Manager

RDM:clb
Encl.

cc: D. J. Williams - 3 S
R. Lesniak - 3 S
C. Collie - (ERC)

# STATEMENT ON REVENUE PROVISIONS OF BUDGET
Re: Treatment Group Term Life Insurance (GTLI) as Wages Under FICA
In Behalf of Employee Benefit & Relations Committee of
The Council of State Chambers of Commerce

February 10, 1987

Currently, GTLI is added to Block 10 (wages, tips, other compensation) on the employee's Form W-2. Since the employer has until January 31 to issue the W-2, the GTLI can be added to salaries and wages paid during the year after the final salary payment in December and before issuing the W-2. There are no income taxes withheld. FICA is a completely different matter since both employee and employer taxes are due on FICA taxable wages. Since the amount of GTLI may not be known in time for the last paycheck in December, the employer has no paycheck from which to deduct the FICA tax. This situation will also happen in the case of lay-offs, quits, discharges, death and retirements prior to year end, i.e., since the GTLI is determined at year end and there is no paycheck, how is the employer to deduct FICA tax.

Another complexity will arise if GTLI will also be included for purposes of state and federal unemployment compensation taxes. Here, the problem is the difference in definitions between federal and state unemployment compensation taxable wages, further aggravating this situation.

This proposal would create additional problems for employers at year end, and in summation, I feel that the administrative expense will not be worth the additional revenues to the social security trust funds.

4357 Dale Drive
Napa, CA 94558
January 30, 1987

Mr. William R. Wilkins
Room SD 205 Dirksen Bldg.
Washington, D.C. 20510

Dear Sir:

I understand that your committee is willing to consider the problems accompanying the IRS issue of a new and more complicated W-4 Form.

I definitely favor a revision of this form for the following reasons:

1. The instructions are too complicated for the ordinary citizen to read and follow.

2. The IRS offers seminars to explain the new forms, but this demands too much time from the ordinary citizen and is an added expense which could better be used to revise the form.

3. My income was variable during the year 1986, and the new form would have made my life miserable attempting to bring together anticipated income with actual income.

I wish to ask the committee to consider a return to the old and time-honored short W-4 Form. It has worked well and can continue to be utilized under the new tax program. Also, I wish to ask the committee to consider a revision in the proposal to heavily fine or penalize taxpayers who underestimate income. I believe that the Government already had utilized withheld income for the purpose of drawing huge amounts of interest before that money was due to be paid in the form of taxes. I do not believe that a taxpayer should be penalized an additional amount for money they inadvertently owe in taxes until such time that the tax liability is over due.

Thank you for your consideration on this issue.

Sincerely yours,

Robert Hampel

Edward E. Kuerner
255 Yerba Buena Place
Los Altos, CA 94022

K

February 1, 1987

Mr William J. Wilkins
Rm. SD-205
Dirksen Bldg.
Washington, DC 20510

Re: W-4 FORM, withholding Allowance Certificate

Dear Sir:

Please do what you can to have the above form simplified so that the average person can accurately complete without going thru the agony of completing mini taxes.

We're outraged by the time involved, complexity & difficulty in completing it.

Yours truly,
Edward E Kuerner

P.S. Please accept this letter in writing, rather than typed —

N

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

Personnel Office

# MEMORANDUM

TO: ALL EMPLOYEES

FROM: WILLIAM BARR, DIRECTOR OF PERSONNEL WB

DATE: JANUARY 30, 1987

SUBJECT: 1987 W-4 FORMS

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The new tax laws for 1987 require that prior to October 1, 1987, all employees must file a new W-4 form. The new form is attached. If we do not receive a new W-4 form from you by October 1, 1987, the District will automatically withhold 1 withholding allowance if the current W-4 shows single status, and 2 withholding allowances if the W-4 shows married status.

**This office is not permitted to give tax advice to employees, therefore, if you have questions regarding your tax liability,** you should contact your tax advisor or the I.R.S.

Please return the completed form to the Business Office.

Thank you.

[redacted]

P

2121 Homewood Way
Carmichael, CA 95608
February 3, 1987

Mr. William J. Wilkins
Room SD205
Dirksen Building
Washington, D.C. 20510

Dear Mr. Wilkins:

I am writing to express my strong opposition to the new W-4. I find it very unsettling that we Americans are expected to predict our financial situations for the year. It is an almost-impossible task.

In my case, I plan to go to work this year. I don't know exactly when I'll get a job. I may choose temporary, part-time, or full-time work. And, of course, I cannot know what my income will be.

I could cite more examples of possible financial fluctuations for my family as this year progresses, but the variables are too many.

People simply do not have control over all the possibilities for change during the coming year that may affect their personal finances.

Please do all that you can to rid us of the W-4 monster.

Sincerely,

Marilyn Kay Prior

Marilyn Kay Prior

January 30, 1987

5

William J. Wilkins
Dirksen Building
SD 205
Washington, D. C.   20510

Dear Mr. Wilkins:

The new W-4 forms for reporting tax deductions allowable are a mess.

My hope, the hope of the citizens of this country, and I believe the hope of Congress was to simplify the filing of necessary forms to report our taxes. This form has made our lives more difficult. I had to call my accountant to help me fill out the form. He has not called me back as yet.

Please do something.

Sincerely,

Natasha Surchek

Natasha Surchek
5 Corte Encanto
Greenbrae, CA 94904

Jerry & Barbara Taggart
3122 14th. street
San Pablo, Calif. 94806
415-235-4998
1/31/87

T

William Wilkins
Room S. D. 205
Dirksen Bldg.
Washington, D.C. 20510

Dear Mister Wilkins,

I am writing to you in the hope that you can use your influence to **SLAM THE DOOR ON THE W-4 !** As you know, the I.R.S. has a "new and improved" W-4 form which all Americans are expected to fill out. This new form is too complicated and requires us to "estimate" how much in the coming year we might loose or spend due to burglary, investments of any kind, medical bills etc. I am supposed to guess whether or not I or any member of my family will go blind or become disabled and all this under threat of a fine of up to $500 if I guess wrong. The new W-4 is too complicated (I can't figure the thing out) and it will have to be redone over and over again as time goes by.

Please do what you can to make the I.R.S. simplify the W-4 before it is too late.

Thank You,

Jerry Taggart

Jerry Taggart
and Barbara H. Taggart

W

1220 DOUGLAS AVENUE, SUITE 105
LONGWOOD, FLORIDA 32779
TELEPHONE (305) 788-1345

JACK O. WILLIAMSON
ACCOUNTANT

ENROLLED TO REPRESENT TAXPAYERS
BEFORE THE INTERNAL REVENUE SERVICE

January 22, 1987

The Honorable Lloyd Bentsen
The U. S. Senate
Senate Office Building
Washington, DC 20501

Dear Senator Bentsen

While I am not in your constituency, I have read in the newspaper that we share at least one very important concern. I applaud your remarks last week when you told the IRS, ". . that the new W-4s should be junked and replaced with a simpler substitute."

The new W-4s will be impossible for the majority of the working people in the United States to properly complete. The W-4s will cause great frustration for employees, employers, and tax practitioners. To present such a form and then add the possibility of a $500 penalty for improper completion of it is almost unconscionable.

I have been so concerned with this problem that I have devised a substitute form. This is based on "dollars" of withholding tax rather than "number" of exemptions. There would be no need for withholding tables. The employer would withhold income tax based on the prior year's total federal tax liability of the employee. Attached you will find a copy of this form. It certainly may need to be improved upon, but I feel that it is a more logical approach to this problem.

Last week I sent this to Commissioner Lawrence Gibbs. I felt up you might be interested in it to. Thank you for your concerns for the working class people of this country.

Sincerely yours

Jack O. Williamson

JOW/mw

1. TOTAL TAX LIABILITY PREVIOUS YEAR ______
2. ADJUSTMENTS:
   - A. PRIOR WITHHOLDING THIS YEAR ______
   - B. ESTIMATED TAX PAID IN THIS YEAR ______
   - C. TOTAL 2(A) AND 2(B) ______
3. SUBTRACT LINE 3(C) FROM LINE 1 ______
4. TOTAL NUMBER OF PAY PERIODS IN THIS YEAR ______
5. TOTAL PAY PERIODS IN 2(A) ABOVE ______
6. SUBTRACT LINE 5 FROM LINE 4 ______
7. DIVIDE LINE #3 BY LINE #6 (ROUND TO NEAREST 10 CENTS) ______
8. ADDITIONAL VOLUNTARY WITHHOLDING PER PAY PERIOD ______
9. TOTAL FEDERAL WITHHOLDING TAX PER PAY PERIOD $ ______

W

January 31, 1987

To this committee:

Without getting into how "Tax Reform" will leave my family with less money per month, I will try to confine my remarks to the impossibility of avoiding a $500.00 fine by filling out accurately the new W-4 form.

How can I know what my "Adjustments to Income" (line F on the worksheet) will be. Particularly, how can I, in January, know what my losses in the Stock Market might be through December? Likewise how can I know what my "Nonwage Income" (line Q on the worksheet) will be? Specifically, how can I, in January, know what my gains in certain securities might be in 1987?

I am not a psychic. However, it does not take a mental giant to see that many, many citizens either will be paying an extra $500.00 in fines when their withholdings prove to be insufficient at the end of the year, or they will be losing buying power and interest on the money they will have had over-withheld in order to avoid this $500.00 fine.

My suggestions number only two:

1)Drop the threat of a $500.00 fine for being unable to predict the future. And,

2)Hold accountable the Commissioner of the Internal Revenue Service himself, Lawrence Gibbs, for allowing this impossible form with its attendant penalties to be foisted on us. He should be fired!

Sincerely,
John S. Wise
John S. Wise
3230 Ensenada Dr.
San Ramon, CA
94583

Y

William J. Wilkins
Room SB 205
Dirksen Building
Washington, D.C. 20510

January 30,1987

Dear Sir:
Have just received the new W-4 form. I find it more difficult to fill out than the 1040 tax form itself, in fact, I only got part way through when I gave up in disgust. I have decided that since my employer (see incl) won't help me I just won't fill one out. My impression of the new tax laws was that things would be simplified and the tax preparer's would be put out of business. Seems to me that with the introduction of the new W-4 form they will more business.

Sincerely,

Peter Young

Peter Young
13707 Monte Bello
Castroville, CA 95012